

## **INEQUALITY IN ROMANIA: DIMENSIONS AND TRENDS**



**IULIANA PRECUPETU, MARIUS PRECUPETU**

**INEQUALITY IN ROMANIA:  
DIMENSIONS AND TRENDS**



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050711, București, România,  
Tel: (4021) 318 81 46; (4021) 318 81 06  
Fax: (4021) 318 24 44  
E-mail: edacad@ear.ro  
Adresa web: www.ear.ro

Peer reviewers: Prof. Ilie BĂDESCU  
Prof. Cătălin ZAMFIR

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## **SUMMARY**

In Romania, inequalities have been driven by a complex of historical, economic and social factors. The communist past has left enduring marks on the country's development, while transition shaped long lasting inequalities. During the process of post-communist transformation, Romania has been through a severe economic decline accompanied by an important rise in poverty and inequality.

Related to inequality, privatisation of large state assets created important opportunities for the concentration of resources in the hands of a small elite and has been one of the major factors leading to the formation of large private wealth. Corruption and its particular form, state capture, created unjustified privileges for some categories, and produced misbalanced outputs in society.

Even if privatisation of agriculture has generally had a distributional favourable impact, it contributed to the emergence of a large, unproductive, fragmented agricultural sector dominated by a subsistence type of farming. Even though it served as a safety net for numerous households, both for the rural population and for those coming from urban areas who lost their jobs during the industrial restructuring process, it is still a low productive sector that has not realised its potential yet.

Informal economy grew to a high extent and, while absorbing a large mass of the restructured work force, it turned into a driver of inequality, as in the informal sector, the rich tended to increase their gains, while for the poor it was a mere survival strategy.

Emigration, and especially its more recent form, emigration for work produced heavy imbalances in the Romanian workforce. Although

generally contributing to increasing living standards, emigration also exacerbated the existing inequalities.

Social policy compensated for the negative effects of transition only partly. In difficult times, people relied more on kinship networks and the subsequent interfamily transfers, on subsistence agriculture or immersion in the informal economy.

Roma population have been impacted by the transition to a great extent. The low opportunities on the labour market for a lower educated and qualified labour force, the traditional outdated occupations, the cultural models and the discrimination they are subject to, all contributed to a trend of social marginalization of Roma.

Transition created new opportunities for some categories while considerably lowered prospects for others. A certain stratification of life chances by age, education, employment status has emerged and widen in time.

## **INCOME INEQUALITY AND POVERTY**

In 2010, Romania ranked fifth highest in EU in regard to income inequality. While in 1990 the value of the Gini coefficient placed this country at the level of Sweden, by 2007 Romania had become the most unequal country in Europe according to this measure.

Own consumption played an important role in reducing poverty and lessening inequality, especially during the time of economic recession. Subsistence agriculture represented an important means that contributed to households budgets and helped to maintain some households barely above the poverty line and, furthermore, was a factor in decreasing income inequality.

Real wages suffered a dramatic reduction during transition as in 1996 they reached 56.2% of their 1990 level. It took 17 years into transition to recover their value in the first year of transition. Moreover, wages in Romania are among the most unequal in EU: in 2006 the P90/P10 wage ratio was 5.5 in Romania while in other countries of the EU the ratio was as low as 2.1 in Sweden and 2.3 in Finland.



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### Summary

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Employment rates are low in Romania and well below the EU27 average. Economic restructuring and early retirement schemes have led to declining employment rates. Employment rates generally vary by gender, education, age and region. The most difficult situation appears to be that of Roma, for which the employment rate is much lower than the national average, while inequalities are related to gender, education, age and basic abilities (reading and writing).

Poverty continues to remain one the crucial problems of the country<sup>1</sup>. In 2010, Romania ranked the second highest in the EU in regard to relative poverty rate, after Lithuania. Having one of the lowest relative poverty thresholds in the EU, Romania had in 2010 an at-risk-of-poverty rate of 17.2%. Absolute poverty affected in 2010 a number of 1,110,000 people. Most exposed to poverty risks are children, youth, households with dependent children (especially those with three or more children), single persons and single persons with dependent children, the unemployed, the self employed in agriculture and low educated people. Inequalities are marked in Romania, apart from individual and households characteristics, also by rural/urban, and development region. In 2010 the gap between rural and urban was important as the absolute poverty was four times higher in rural than in urban. Important disparities appear also between regions. The poorest region (North-East) has poverty rates fivefold higher in comparison to the richest one (Bucharest-Ilfov). The ratio is even bigger (eightfold) according to absolute poverty rates.

Roma represent a deep pocket of poverty as in 2010 their absolute poverty rate was 31.4% in comparison to that of the Romanian population of 4.4%. The gap between Roma and the Romanian gradually increased in time as in 2003 the Roma poverty risk was 3 times higher than the Romanian poverty risk, whereas in 2010 it was more than 7 times higher.

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<sup>1</sup> *At risk of poverty* rates come from Eurostat, EU SILC data, absolute poverty rates come from MLFSP, 2010, HBS data.

## **SOCIAL DIMENSIONS**

In regard to social capital, in Romania, social relationships have been shaped by the communist heritage characterised by high distrust in others' outside primary groups, in social institutions and by the subsequent social isolation. Generalised trust, the frequency and membership of associations are at a low level in Romania which can be explained by a series of factors, among which poor structural opportunities for participation, weak tradition of non-governmental organizations in Romania as well as poor individual resources.

Romania is characterised by low fertility, a marriage rate at the average level of EU and low divorce rates. Family has been throughout the transition the main safety net for most of the people. Multigenerational households, help within the extended family and strong kinship networks acted as buffers against the hardships of transformation.

In Romania, populations' health is rather poor and aggregate indicators (life expectancy, infant mortality, mortality, etc.) show that there is big gap that separates Romania from the developed countries in the EU in regard to health status. Furthermore, a series of inequalities characterize health in Romania, coming from socio-economic positions as well as from the general development of the country and the specific setup of the health system (between rural and urban, between development regions or various size localities).

In regard to housing, tenure status is heavily influenced by the communist heritage and the privatisation of the housing stock in early '90s. Homeownership is overwhelmingly widespread in this country and the highest in the EU. Most of the houses are owned outright, while mortgage or loans are not significant in the total tenure status. Romania has the lowest share of owners with mortgage or loans in the EU. The proportion of tenants is also low as renting is not an institution yet in Romania.

Inequalities appeared between older generations, who benefited from a generous communist welfare package, and younger generations,

who saw their access to housing severely limited. Also, a series of inequalities characterise quality of housing in Romania. A major line of division in regard to housing is between urban and rural. Other disparities that characterise housing conditions are between small cities and big cities, neighbourhoods with individual homes and those with blocks of apartments. Housing conditions are also structured by individual characteristics: most exposed to precarious housing are those with a low level of education, those with a low level of income and Roma households.

Life satisfaction generally displays low levels in Romania. Satisfaction with standard of living is constantly the lowest among satisfaction with life domains, proving that this is the most problematic aspect of people's lives. At the other end of the scale, satisfaction with family shows constantly highest levels among life domains.

In the first part of the communist regime, educational mobility consisted of a high level structural mobility, while in the second part of the regime (starting with the mid '70s) largely social reproduction dominated mobility processes. However, as a general pattern, during communist regime in Romania upward mobility was by and large based on education. During transition, upward mobility became increasingly dependent on social origin.

## **POLITICAL DIMENSIONS**

People's estrangement from political life in Romania is indicated both by the low level of trust in political institutions (government, parliament, political parties, presidency) and by their preference for institutions that are highly personalized and visible (like the presidency, government, and local authorities) to the detriment of more abstract and less tangible institutions (parliament, political parties). So, granting trust to institutions appears to be dependent on how people feel having more or less control on them, and how they perceive the outcomes of these institutions (more or less direct/tangible, more or less relevant for their own lives).

Even if people evaluate poorly the functioning of the democratic regime, their attachment to the values and principles of democracy have the meaning of a citizenry that care about the fate of their democracy and are interested in improving its performance. In Romania, the rather low specific support for democracy was not opposed to the democratic regime, but driven inside the democratic system through a vote in favour of the political opposition. As a result, change in power took place in the last five general elections. The absence of extremist parties in Romania is another characteristic of the political life that favours the persistence and consolidation of democracy.

Proven by objective indicators, the unequal society of Romania is perceived as such by the majority of the people in their subjective assessments. A very large majority consider that there are huge disparities between incomes and that the fairness of redistribution should be ensured by the government.

### **EFFECTIVENESS OF POLICY IN COMBATING INEQUALITY**

In Romania, after 1990 and up to 2000, social policy has been through various stages: at the beginning of transition, social policy knew a so called “reparative phase”, where the goal was to compensate for the deprivation during the communist regime. The phase of “strategy conception” followed, where the legislative and institutional framework have been designed, while during the “actual policy phase” a more articulate welfare regime was outlined<sup>2</sup>.

Romania has the second lowest minimum wage in the EU after Bulgaria. Between 1999 and 2012, the level of minimum wages varied between 21% and 33% of the average monthly gross earnings in industry and services.

The flat tax system introduced in 2005 with the goal of increasing the tax base by reducing tax avoidance and evasion has had some mixed

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<sup>2</sup> According to Zamfir, 2000.

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### *Summary*

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effects: its beneficial effect consisted of increased employment and lower unemployment but it did not contribute to lowering inequality. As a general model, the higher the incomes, the bigger the benefits of the flat tax and the larger the household, the smaller the gains were.

Social security contributions are very high in Romania (31.3%) and they might have offset the array of possible positive effects of the flat tax system.

Social expenditure maintained during transition at low levels and in 2009, Romania had the third lowest social protection expenditure in the EU as a percentage of GDP.

The Romanian pension faces a series of challenges posed by the ageing of the population, low fertility rate, a low employment rate, a large underground economy, a large pool of emigrated workers and a low economic output. The dependency ratio, contributor-pensioner went down from 3.5 in 1989 to around 1 in 2011. From 1990 to 2006 the value of pensions in real terms significantly deteriorated and they came to represent only 33% of the average salary in 2006 in comparison to 51% in 1990. Starting with 2007 pensions started to increase in real terms but they reached and surmounted their 1990 level only for a brief moment, in 2010, to fall again in 2011.

Romania has a relatively generous system of family benefits which increased and diversified especially after 2004. Family benefits represent the third largest expenditure of GDP after old age and health care.

In 2009 Romania allocated for education 4.2% of GDP, representing the second lowest share allocated to education in the EU. During the past few years, expenditure on higher education and secondary education increased, while for primary level of education expenditure decreased. For the past, 22 years, Romania's education system has been under perpetual reforms, either deep-seated or less significant, depending on the objectives of the various governments and political moments. These reforms have put a high pressure on all the actors involved in the educational process: policy makers, teachers, parents and students.



## INTRODUCTION

After 1990 income inequality grew tremendously in Romania and today, the country is among the most unequal countries in EU. While in 1990 the value of the Gini coefficient placed Romania among the most equal countries in Europe, close to the level of Sweden, by 2007 Romania had become the most unequal country in Europe. In 2011, Romania ranked fifth highest in EU in regard to income inequality with a Gini coefficient<sup>3</sup> of 33.2, after Greece (33.5), Spain (34), Latvia (35.4) and Portugal (34.2).

This paper aims to create an overall image of inequality in Romania by looking at income inequality and highlighting the social, political and cultural dimensions of inequality in this country. The paper concentrates on examining patterns and trends of inequality mainly over the two decades that followed the fall of communism in Romania. While the main focus is on Romania, where possible, the country is situated in a European comparative perspective by employing comparisons across the various indicators.

First, the paper sets out to describe the macro context of Romania starting with 1990. Second, it treats the nature of inequality and its development over time. Following, it examines the social, political and cultural dimensions of inequality while in the end it considers the various policies that might have a bearing in combating inequality.

The book is an endeavour to comprehensively illustrate trends in inequality and its dimensions during a period of twenty years, largely

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<sup>3</sup> Eurostat data.

the transition time. The book makes use of aggregate and individual data from both international and national sources. The data come mainly from various sources like Eurostat, National Institute of Statistics (NIS), European Commission (Eurobarometers), European Foundation for the Improvement of Living and Working Conditions (EQLS), Research Institute for Quality of Life (Quality of Life Diagnosis).

In the attempt to describe the transition period, as comprehensively as possible, available data on Romania posed a series of constraints. Early '90s are partly covered with data as statistics system made efforts to harmonize with European and international statistics systems while social surveys only started to be carried out in Romania. Continuous time data series are rarely available. For example, Labour Force Survey started only in 1992 in Romania and changed methodology on the way. EUSILC was implemented only in 2007 in Romania. Some international surveys have not been carried out in Romania, e.g. International Social Survey Programme or they were only done once, like European Social Survey. No wealth data was ever gathered for Romania and the only (incomplete) source of data for characterizing wealth inequality remain Eurostat financial balance sheets.

There are also some differences between national and international data sources as in the case of unemployment rate, distribution of population by education levels or social expenditure.

However, in this book, we tried to overcome the difficulties posed by data by:

- using data series that allow breakdown by socio-demographic variables. This is the case with distribution of population by educational attainment which differs between national source and Eurostat. We used national source to highlight disparities between urban and rural and Eurostat for characterising the macro background of Romania. When the case, the differences were acknowledged.

- covering periods as long as possible with data, sometimes complementing sources.



## *Introduction*

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This book<sup>4</sup> is the result of the work carried out by the authors within the project *Growing Inequality and its Impacts (GINI)* coordinated by Wiemer Salverda, University of Amsterdam and funded by the Seventh Framework Programme of the European Union.

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<sup>4</sup> A segment of this book was published in a modified version as: Iuliana Precupețu, Marius Precupețu, “Romania: High rising inequality over two decades of post communist transformation” in Brian Nolan, Wiemer Salverda, Daniele Checchi, Ive Marx, Abigail McKnight, István György Tóth and Herman van de Werfhorst (eds.), *Changing Inequalities and Societal Impacts in Rich Countries: Thirty Countries’ Experiences*, Oxford University Press, pp. 529–557. A segment of this book was published in a modified version as: Iuliana Precupețu, “Inequality trends in Romania”, *Calitatea Vieții*, no. 3/2013, 22 pp.



## **CHAPTER 1**

### **AN OVERVIEW OF INEQUALITY IN ROMANIA**

#### **1.1. THE MACRO CONTEXT OF ROMANIA**

In the recent history of Romania GDP growth generally described an up and down pattern. Economic recession started in mid '80s and prolonged itself and further aggravated during the first years of transition. The year 1991 registered a record low of 12% contraction of the economic output. The economy slowly started to recover in 1993 and a relative stabilisation was noticeable only for four years. The output expansion was reversed by renewed economic turmoil in 1997 and 1998. Since 2000 a new period of economic growth began, which seemed at the time a more robust and sustainable path: in 2008 GDP registered a record high of 9.6% growth. However, the positive trend abruptly ended up in the economic crisis, as GDP contracted in 2009 with 8.4%. The following years brought about certain stagnation. By and large, consumption, which is generally low in Romania, followed the same pattern as GDP, recording the most dramatic decline in 1991 (15% in comparison to the previous year) and twenty years later, when in 2011 recorded a contraction of 11.2%, much more important than that of GDP.

Real wages remained low for the entire transition period. They declined dramatically in the early '90s, and despite a small positive trend during 1994–1996, they largely remained under the GDP evolution and recovered to their 1990 level only in 2007.

The government consolidated gross debt (% of GDP) has been on the increase, from 6.6% of GDP in 1995 to 33.3% in 2011, currently still being one of the lowest in the EU.

Employment decreased significantly in the 1990s due to the economic restructuring, the slow process of job creation and early retirement schemes. The number of employees in the economy fell from 8.1 million in 1990 to 5.9 million in 1996 and furthermore to 4.4 million in 2010 (NIS data).

The dismantling of socialist agriculture and the consequent land restitution conducted to the formation of a sizeable subsistence agriculture in which a large part of the former industrial labour force has immersed. However, agriculture conceals a large group of unemployed population.

Informal employment is very high, estimated at between 1 and 2 million people<sup>5</sup>.

In relation to education composition, 29.4% of Romania's active population have attained levels 0–2 and 57.6% levels 3–4. Although tertiary education expanded a lot during transition, the proportion of graduates in the active population is still the lowest in EU (13%) (Eurostat data).

Romania has been through a demographic decline that started during the early '90s. In the past, the pro-natalist policy introduced in the mid '60s by the communist regime, lead to a demographic expansion that reached its peak in 1990 when the population was 23.2 million. The last census of 2012 recorded a total population of 20,254,866 (NIS, census provisional data 2012). The sharp decline is due to a decrease in the fertility rate owing to the unfavourable economic and social circumstances of transition. Emigration, currently estimated at 3 million (OECD, 2012), with its more recent form emigration for work, also contributed to the population decrease. Composition of population by nationality shows that 88.6% is represented by Romanians, 6.5% by Hungarian population, 3.2% by Roma while the remaining 1.4% is represented by other ethnic groups<sup>6</sup> (NIS, census provisional data 2012).

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<sup>5</sup> MLFSP, Strategic national report regarding social protection and social inclusion, 2008–2010.

<sup>6</sup> The remaining 0.3% is represented by those who do not declare their ethnicity.

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*Chapter 1. An Overview of Inequality in Romania*

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Ageing affects Romania along with the other European countries: between 1990 and 2011 the proportion of the population over 65 years old increased from 10.4% to 15%, whereas the proportion of those aged 0–14 decreased from 23.6% to 15.1%.

*Table 1.1*

Basic socio-economic background statistics

	1990	1995	2000	2005	2010	2011
<b>Population</b>						
Ages 0–14 (% of total)	23.6	20.5	18.4	15.6	15.2	15.2
Ages 15–64 (% of total)	66.0	67.5	68.1	69.6	69.9	69.8
Ages 65 and above (% of total)	10.4	12.0	13.4	14.8	14.9	15.0
Population, total	23,201,835	22,684,270	22,442,971	21,634,371	21,438,001	21,390,000
<b>GDP</b>						
GDP per capita (constant 2000 US\$)	1,896	1,741	1,651	2,260	2,637	2,633
GDP per capita growth (%1990)	100	91.8	87.1	119.2	139.1	138.9
<b>Consumption</b>						
Household final consumption expenditure per capita (constant 2000 US\$)	1315	1245	1304	1981	2660	2362
Household final consumption expenditure per capita growth (%1990)	100	94.7	99.1	150.7	202.4	179.7
<b>Debt</b>						
Government consolidated gross debt (% of GDP)		6.6	22.5	15.8	30.5	33.3
<b>Real wages</b>						
Index of real wages (%1990)	100	66.5	59.4	89.5	123.6	

*Table 1.1 (continuation)*

Unemployment						
Unemployment rate		9.5	10.5	5.9	7	7.7
Education composition of active population (ISCED)						
Levels 0–2				33.3	30.3	29.4
Levels 3–4				57.6	57.8	57.6
Levels 5–6				9.1	11.9	13

Sources: GDP, Population: WDI. Real wages: NIS, Statistical Yearbook. Unemployment rate: NIS, Statistical Yearbooks. Government consolidated gross debt (% of GDP). Education: Eurostat.

## **1.2. THE CONTEXT OF TRANSITION: SHAPING LONG LASTING INEQUALITIES**

In the recent history of Romania, the communist regime aimed at comprehensive development and at an egalitarian society. However, although aiming at social equality, communism only accomplished to generate a process of “homogeneity in poverty” (Mărginean 2004, 64). During transition from communism to democracy and capitalism, important drivers of inequality were generated. Economic restructuring consisting in a large process of deindustrialisation and privatisation of agriculture coupled with the fall of former communist markets largely defined the first decade of economic transition in Romania.

During the first decade of transition, absolute poverty increased tremendously from 5.7%<sup>7</sup> in 1990 to 35.9% in 2000 when it reached its peak. Income inequality also grew to a high extent and by 2000 it rose by more than 70% above its 1990 level. Romania went from a relatively egalitarian country to one of the most unequal countries in Europe. Employment decreased due to economic restructuring and early retirement schemes and the number of employees reduced from 8.1 million in 1990 to 4.6 million in 2000 (NIS data).

It is largely acknowledged that Romania embarked on a slow and painful path of transformation. The structural reforms have been

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<sup>7</sup> MLFSP, 2010, HBS data.

gradual and have been accompanied by high social costs. Apart from the poor communist legacy, the sluggish rhythm of reforms was key to economic decline, rising poverty and inequality.

As part of the general strenuous reform, privatisation of large state assets was intricate, lingering and not transparent. In fact, it was characterized at the time as *insider privatization*, *asset stripping* and *nomenklatura privatization* (Tanzi 1998). The transfer of ownership from state to private owners created important opportunities for the concentration of resources in the hands of a small elite. This has been one of the major factors leading to the formation of large private wealth and to the deepening of inequality.

Corruption plagued the process of privatization and continued to diversify and amplify during transition in many spheres of society, turning into a factor that contributed to deeper inequality. *State capture* (Hellman et al., 2000) created unjustified privileges, and produced misbalanced outputs in society. Public positions have been used many times to the extent that people occupying these positions legislated in favour of specific interests or overlooked the legal requirements in order to fulfil private interests (Precupetu, 2012). Well into transition, legislating in favour of special interests took many forms like passing special pieces of legislation for special pensions, for creating advantages in the process of privatization or for awarding contracts or licences.

Privatisation of agriculture has generated a distributionally favourable impact (Cornia 2002). However, land restitution, usually small parcels of land, has led to the emergence of a large, unproductive, fragmented agricultural sector dominated by a subsistence type of farming. Agriculture accounts today for about 30% of total employment<sup>8</sup> (NIS data) while the rural population is 45%. Nevertheless, subsistence agriculture served as a safety valve for numerous households, both for the rural population and for those coming from urban areas who lost their jobs during the restructuring

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<sup>8</sup> Involvement in small scale farming might be underreported.

process of the industry. The high agricultural potential of the country has not been realised yet and the subsistence model largely perpetuated to today. The role of subsistence agriculture is to be seen in the high proportion of own consumption in Romania and in the lessening effect that this has had on inequality, especially during the first ten years of transformation.

Informal economy grew to a high extent and was estimated for 2001 at 25–28% of the GDP<sup>9</sup> (Albu 2003). Between 1 and 2 million persons were estimated to work in the shadow economy<sup>10</sup> in 2008.

Subsistence agriculture and informal economy constituted at individual and household level successful surviving strategies for those affected by recession. “Informal cash earnings have deepened inequality, however; in the informal sector, the rich are becoming richer, while the poor are only managing to obtain the bare necessities” (Zaman and Stănculescu 2007, 24). In the short and long term, informal economy means, especially for the poor, less security in what regards their future earnings at retirement.

Emigration, and especially its more recent form, emigration for work produced heavy imbalances in the Romanian workforce. Currently, it is estimated that 3 million people work abroad (OECD, 2012). Emigration is selective in terms of education and regions. Data suggest that the percentage of university graduates having left Romania for good rose from 6% in 1990 to 23% in 2000 while in regard to regions migration was concentrated more in western and eastern regions of the country (UNDP, 2005). Although generally contributing to increasing life standards, emigration also exacerbated the existing inequalities.

In case of Roma, the transition process affected this population to a greater extent than the majority. Being less educated and less qualified, they were among the first to lose their jobs in the economic

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<sup>9</sup> Estimations vary a lot according to source and measurement method. Estimations go up to as much as 37.4% of GDP (Schneider, 2005).

<sup>10</sup> Strategic national report regarding social protection and social inclusion, 2008–2010.



restructuring. Enrolment in education decreased while the emerging segregation patterns of schools did not help in their social inclusion. The low opportunities on the labour market, the traditional outdated occupations, the cultural models and the discrimination they are subject to, all contributed to a trend of social marginalization of Roma.

Through the difficult times, social policy did not compensate for the negative effects of transition. On the contrary, over the periods of crisis/recession in the first decade of transformation, the social expenditure tended to lower and “the public sector seemed the first one to be sacrificed” (Zamfir et al. 2010, 15).

All these factors either created new inequalities or contributed to the deepening of the existing ones.

Today, a series of inequalities characterize Romania: inequalities between a small elite of very rich and a large group of poor people, between several large developed cities and the rest of the country, between rural and urban areas, between big cities and small, former mono-industrial small towns, between large villages and small, poor, aged, peripheral villages, as well as between various regions of the country. Moreover, transition created new opportunities for some categories while considerably lowered prospects for others. A certain stratification of life chances by age, education, employment status has emerged and widen in time, as showed in detail below.

### **1.3. DEEPLY ENTRENCHED INEQUALITIES**

Today, there is no evidence that the existing gaps tend to lower. Currently, Romania has the lowest median equivalised income in the EU, less than half of the EU12 average and around ten times smaller than that of some developed western countries like the Netherlands or Austria. Even though very poor, Romania ranks the fifth in the EU in regard to income inequality. While in 1990 the value of the Gini coefficient was placing this country at the level of Sweden, by 2007 Romania had become the most unequal country in Europe according

to the value of the same coefficient. Although Romania was an egalitarian country under communism, it was characterised by equality at a very low level of income and the population was generally poor and impoverished. Today, this country displays high levels of inequality while incomes continue to remain very low.

In Romania, own consumption played, and continues to play, an important role in reducing poverty and lessening inequality, especially throughout the time of economic recession. Subsistence agriculture represents an important means that contributes to the households' budgets and helps to maintain some households barely above the poverty line and, furthermore, is a factor in decreasing income inequality.

Poverty continues to remain one of the crucial problems of the country<sup>11</sup>. In 2010, Romania ranked the second highest in the EU in regard to relative poverty rates, after Lithuania. Having one of the lowest relative poverty thresholds in EU, Romania had in 2010 an at-risk-of-poverty rate of 17.2%. Absolute poverty affected in 2010 a number of 1,110,000 people.

Most exposed to poverty risks are children, youth, households with dependent children (especially those with three or more children), single persons and single persons with dependent children, the unemployed, those self employed in agriculture and low educated people. In 2010, the poverty risk of persons under 18 was almost two times higher than that of persons of 65 years and over. Children and youth (under 30) represent almost half of the number of people in absolute poverty. Households with dependent children face a significantly higher risk of poverty than those without children. Most exposed to poverty are the households of two adults with three or more children and in 2010, in Romania, at risk poverty for households with three or more dependent children was the second highest in Europe after Bulgaria and was more than two times higher than the EU27 average. Unemployed people face a risk of poverty almost three

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<sup>11</sup> *At risk of poverty* rates come from Eurostat, EU SILC data, absolute poverty rates come from MLFSP, 2010, HBS data.

times higher than the employed and maintain high and relatively stable risks over time. However, the self-employed in agriculture seem to be most exposed to absolute poverty.

Inequalities are marked in Romania not only by individual and households characteristics but also by rural/urban and development region. In 2010 the gap between rural and urban areas was important as the absolute poverty was four times higher in rural than in urban areas. In Romania pockets of poverty are concentrated mostly in rural areas as 76.7% of the poor are living in rural and only 23.3% live in urban areas. In time, the gap between the two areas tended to deepen: in 2000 the absolute poverty in rural areas was less than 2 times higher than in urban areas, while in 2010 it was 4 times higher. The pattern (Zaman and Stanculescu 2009) was that, even though the rural population has been less affected by recession, the urban population has tended to gain to higher extent from recovery.

Important disparities appear between regions. The poorest region (North-East) has poverty rates fivefold higher in comparison to the richest one (Bucharest-Ilfov). The ratio is even bigger (eightfold) according to absolute poverty rates. Some of the disparities have deepened in time, even in times of economic growth, when poverty decreased. For example, in the period 2003-2006 the West region registered a 62% drop in the number of poor, in the South the number of poor was reduced by more than half, while in the Centre region the decrease was much lower, of only 34%. The differences in the pace of poverty reduction have led to increasing regional disparities (World Bank 2007).

Roma represent a deep pocket of poverty as in 2010 their absolute poverty rate was 31.4% in comparison to that of the Romanian population of 4.4%. The gap between Roma and the Romanian gradually increased in time as in 2003 the Roma poverty risk was 3 times higher than the Romanian poverty risk, whereas in 2010 was more than 7 times higher.

Employment rates are low in Romania: in 2011 total employment rate (15–64 years old) in Romania was 58.5%, well below the EU 27

average (64.3%) and much lower than foremost western countries like the Netherlands (74.9%), Sweden (74.1%) or Denmark (73.1%). From 1997 to 2001, employment rates declined continuously and fell more abruptly in 2002, to remain rather stable to the present. The declining employment rates in early 2000s were due to the accelerated reforms and economic restructuring, coupled with early retirement schemes. Migration also influenced employment to a certain extent. The older age groups (55–64), the female labour force displayed, those with low education experienced more important declines in employment rates, while for younger work force (15–24) the decline was rather steady.

In term of regions, employment rates vary from a low 53.5% in the Centre to a high 64.3% in Bucharest-Ifov region, reflecting once again disparities in development of the various regions and therefore the different capacity to absorb the work force.

Roma population is picturing again a difficult situation. Roma employment rate is much lower than the national average, being situated at only 35.5% while inequalities are related to gender, education, age and basic abilities (reading and writing). The employment rate is significantly higher for men (44.3%) than for women (27.4%), for the higher educated (67%) in comparison to lower educated (33.6%), and significantly lower for younger age groups (16–24) (28%) in comparison to those between 25 and 54 years old (39.3%) (Preoteasa 2012). A combination of factors contribute to particularly difficult situation of Roma: the low level of education, low level of qualification and skills, the tradition of specific jobs which do not match the current conditions on the labour market and the discrimination faced from employers who generally offer less qualified jobs to Roma (Preoteasa 2010, Cace et al. 2010).

High unemployment rates display the youth, the low educated, males in comparison to females, urban areas in comparison to rural ones. An interesting case is represented by the higher educated as during the past three years their unemployment rate almost doubled. They seem to have been impacted more during the time of the

economic crisis. This can be explained by the higher graduation rates from tertiary education and the incapacity of the labour market to absorb the more educated labour force during the crisis. Higher unemployment rates for males than females probably originate in the economic restructuring process, which affected to a higher extent the male workforce. In urban areas, unemployment is considerably higher than in rural areas, as agriculture accommodated an important segment of the jobless. However, it was justified that in the agricultural sector there is also substantial hidden unemployment (Zaman and Stănculescu 2007).

Real wages suffered a dramatic reduction during the transition as in 1996 they reached 56.2% of their 1990 level. It took 17 years into transition to recover to their value in the first year of transition. Moreover, wages in Romania are among the most unequal in EU: in 2006 the P90/P10 wage ratio was 5.5 in Romania while in other countries of the EU the ratio was as low as 2.1 in Sweden and 2.3 in Finland.

Wages represent an essential source of income at household level although their contribution to total income of households remains low in Romania, at about half of the total income. Their contribution to household income is important for the employed, for those living in urban areas, and for the most affluent households. Disparities in wages maintain currently between economic sectors, public and private sectors and by gender.

A series of inequalities characterize education in Romania, among which those determined by income, residence and ethnicity are crucial.

Income introduces an important divide in education, even though public education is tax free. The costs associated with education (transportation, clothing, meals, sometimes textbooks etc) introduce a divide between low income families and the rest of the population in regard to access to school. Income becomes important also when looking at the quality of education. Private tutoring, a widespread model in Romania, supplements low quality education in

some schools or disciplines, prepares the children for evaluations and admissions etc. Consequently, those who cannot afford private tutoring and rely on the public education system are disadvantaged in comparison to the others. Moreover, the introduction in lower secondary of tax based school contests which count towards the children's portfolio for high school admission (although it is not yet clear what their role is) discriminate between children coming from low income families, who cannot afford to pay the taxes for participation and the others who appear to have better chances in accessing high schools.

Another important divide is the omnipresent rural/urban disparity. While schools in urban areas generally have a better infrastructure, higher qualified staff and provide better opportunities for their students, those in rural areas tend to illustrate the opposite. Participation in education is significantly higher in urban than in rural areas and is especially deep for higher levels of education: upper secondary and tertiary. Participation rates in higher education are more than double in urban (56.3%) than in rural areas (27.2%). Rural residence seems to provide lower educational opportunities to children all along their educational path.

Rural populations also have a generally lower education, which further impedes on its development: in 2009, only 4% of population living in rural areas had a university degree, while the percentage was 25.4 in urban areas.

Roma children are disadvantaged in comparison to others. In 2011, 20% of the Roma children (6-16 years old) were not enrolled in school. Illiteracy affects 25% of the Roma aged 16 and older, being higher in rural areas, Roma compact communities and among women. Educational attainment is very low among Roma, as almost half either have no formal education or graduated from primary school, around one third graduated from lower secondary education while only 15% have upper secondary education. Those with a university degree are only 1% (Tarnovski 2012).

Other vulnerable groups of children face important problems in regard to participation in education: children coming from disadvantaged

families, HIV infected or children with special educational needs (Preda 2009).

Transition to the labour market is rather difficult in Romania and is evident in the high unemployment rate of the young population which in 2011 was 23.5% for the age group 15-24 much higher than the 7.4% rate at national level (NIS 2012). There is a sort of asymmetry between the education system and the modern requirements of the labour market, as the education system is not flexibly adapted to the needs of the labour market. To this misfit contributes the low participation in adult training in Romania in comparison to other European countries. The skills gap in the labour markets comes also from the emphasis for a relatively long time on vocational education at the secondary level and the relatively modest coverage of higher education (World Bank 2008).

Romania is characterized by low returns to education and even though an increasing trend in time is noticeable, the growth is still modest. Returns to schooling are low for those with less-than-tertiary education, especially for the graduates of vocational secondary schools who are working in the private sector. Poor children are more likely to be directed into low-return education paths (namely vocational schools), while wealthy children are more likely to attend general secondary and tertiary education institutions. This has obvious implications for the reproduction of inequality. For tertiary education, returns to education are higher, but they are still significantly lower than in other countries (World Bank 2008).





## **CHAPTER 2**

### **THE NATURE OF INEQUALITY AND ITS DEVELOPMENT OVER TIME**

This chapter is dedicated to inequality in income, labour market and education in Romania. First, it looks at income inequality in an attempt to understand the pattern of growing inequalities in time. Second, the chapter concentrates on poverty and poverty profiles by employing two measures of poverty, relative and absolute, with the aims of understanding the trends in the evolution of poverty and of highlighting the most exposed groups to poverty. Labour market inequality is treated in the next section which focuses on three main dimensions: employment, unemployment and wages, while also highlighting inequalities. The final section is dedicated to educational inequality.

The chapter relies on NIS national data, as well as on Eurostat data. National data<sup>12</sup> come from the Romanian households' budget surveys which, in time, have been through several changes: 1990-1994 Family Budget Surveys, 1995-2000 Integrated Household Survey, 2000-2010 Household Budget Survey<sup>13</sup>. Eurostat data comes from either EUSILC which was implemented in Romania starting with 2007, or LFS, starting with 1997. Even though these data describe a rather short period of time, it allows us to understand variations by socio-demographic variables and to make comparisons to other countries in the EU.

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<sup>12</sup> Data series for income shares (top 1%, 5% and bottom shares) are not available for Romania.

<sup>13</sup> In the text, we mention only "NIS data".

## **2.1. HOUSEHOLD INCOME INEQUALITY**

In 2010 Romania had a median equivalised income of 2,037 Euro, which was the smallest in EU and around ten times smaller than that of some leading western countries like the Netherlands (20,292 Euro), Austria (20,618 Euro) or France (20,046 Euro), and less than half of the NMS12 average (4,431 Euro) (Eurostat).

In 2010 Romania ranked fifth in the EU in regard to income inequality. With a Gini coefficient of 33.3, Romania was placed among the most unequal countries in EU, having a level of income inequality lower only than Lithuania (36.9), Latvia (36.1), Spain (33.9) and Portugal (33.7) and significantly higher than the EU27 average (30.5) (Eurostat).

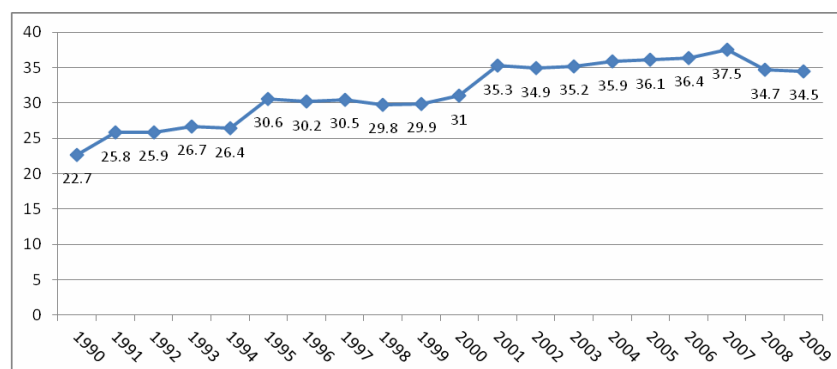
In time, income inequality grew to a high extent. In 1990, immediately after the fall of communism, Romania was characterized by a low level of inequality, being in the group of countries less unequal in Europe, like Sweden or Hungary. After only a decade of transition, Romania went into the group of the most unequal countries in EU, like UK or Portugal.

Early '90s saw a moderate increase in the Gini coefficient in a time of economic recession (Figure<sup>14</sup> 2.1). In the second part of the '90s, with the start of modest economic growth, the Gini coefficient registered another increase, followed by a relatively stable period. The most significant increase in the Gini coefficient occurred after 2001, when the economy entered a path of more robust growth. The Gini coefficient maintained a very high level all through the time of economic growth and reached a peak in 2007 when Romania ranked the highest in the EU in regard to income inequality (Eurostat data).

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<sup>14</sup> Here we use Transmonee data as is the most complete series available for Gini coefficient. International comparisons are based on Eurostat data which start the series in 2000. A graph of Eurostat data is given in the annex. The Eurostat measure is the Gini coefficient of equivalised disposable income using the modified OECD scale and the Transmonee data refer to the distribution of population by per capita household net income.

Only starting with 2008, for the first time after 1990, the Gini coefficient recorded a significant decrease although the country still remains one of the most unequal in EU.



Source: Transmonee, based on NIS data.

Figure 2.1. Distribution of per capita household net income:  
Gini coefficient, 1990–2009.

In Romania, own consumption<sup>15</sup> played an important role in reducing poverty and lessening inequality, especially throughout the time of economic recession.

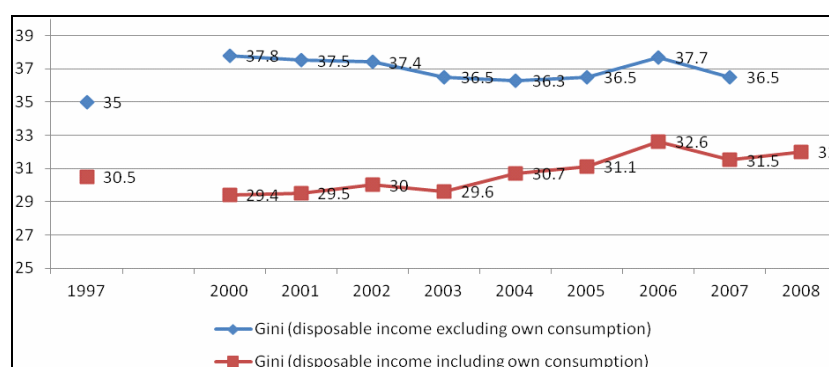
In 2000, the value of the Gini coefficient excluding own consumption was 37.8 while the value of the same coefficient including own consumption was 29.4, the difference between the two being 8.4 Gini points. In time, up to 2007, the differentiation between the two decreased to 5 Gini points, showing a diminishing significance of own consumption (Figure 2.2).

Subsistence agriculture carried out by individual farmers on small plots of land represented an important means that contributed to the households budgets and helped to maintaining some households barely above the poverty line and furthermore was a factor in decreasing

<sup>15</sup> Own consumption refers to consumption on food produced by the households and does not include imputed rent.

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income inequality (Mărginean 2006). This was especially important for the poorest households, as for example, the most important income sources for those in the first income decile are agriculture and social benefits (NIS data).



Source: Zamfir et al. 2010, NIS data.

Figure 2.2. Gini coefficient including and excluding own consumption.

The income quintile ratio (S80/S20) depicts approximately the same picture of income inequality as the Gini coefficient. In 2010 the S80/S20 ratio was 6, which ranks Romania fourth in the EU, after the countries with the most unequal income distribution represented by Spain (6.9), Lithuania (7.3) and Latvia (6.9), and higher than the EU27 average (5). The highest ratio was registered in 2007, when it reached 7.8 (Eurostat data).

### **Trends in poverty risks**

In 2010, Romania ranked the second highest in the EU in regard to relative poverty rates. According to Eurostat data<sup>16</sup>, the at-risk of

<sup>16</sup> The figure for *at risk of poverty* rate slightly differ between Eurostat and NIS data based on HBS. Here, we used Eurostat for international comparisons and NIS national data for trends in time.

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## Chapter 2. The Nature of Inequality and its Development over Time

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poverty rate in Romania was 21.1%, second after Lithuania (21.3%), higher than the EU27 average (16.4%) and much higher than in countries like the Netherlands (10.3%) or France (13.5%). It is also worth mentioning that Romania has one of the lowest poverty thresholds in EU.

Table 2.1

Relative poverty 2000–2010: at risk of poverty rate (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>At risk of poverty rate</b>	<b>17.1</b>	<b>17</b>	<b>18.1</b>	<b>17.3</b>	<b>17.9</b>	<b>18.2</b>	<b>18.6</b>	<b>18.5</b>	<b>18.2</b>	<b>17.5</b>	<b>17.2</b>

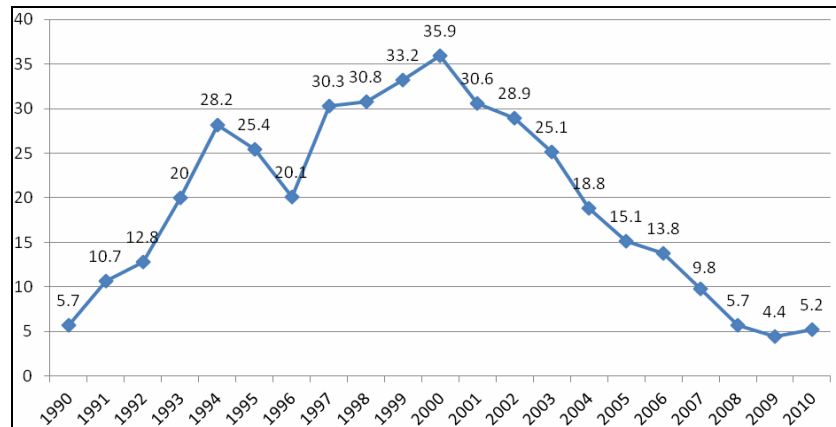
Source: MLFSP 2010, NIS data.

Relative poverty, calculated by using a threshold fixed at 60 percent of the national annual median disposable income, shows little change since 2000. Despite a period of economic growth from 2000 to 2008, which lead to an increase in time in incomes and consumption, the poverty rates remained rather stable as the median income also changed.

The relative poverty measure does not capture the dynamics of poverty in Romania. For this reason, another measure of poverty was calculated nationally that is able to reflect the changes in the level of welfare, against an absolute poverty line anchored in a minimum consumption basket.

The absolute poverty measure is based on a national methodology, developed by NIS, Government experts, researchers, and the World Bank. This methodology uses a consumption-based welfare indicator, and an absolute poverty line based on the cost of basic needs method. The consumption-based welfare indicator includes own consumption. The poverty line is absolute, including a food component plus an allowance for essential non-foods and services. The food component is determined as the cost of a food basket preferred by the individuals from the second and third deciles. The equivalence scale is *empirical*, taking into account economies of scale and relative cost of children over adults (each adult = 1, each child = 0.5, economy of scale parameter = 0.9) (Word Bank 2007).

In Romania, absolute poverty rose sharply after 1990, along with the economic recession, until 1995, when it began to decrease for two consecutive years as the economy seemed to recover to a certain extent. Once again, with a new economic recession, starting with 1997, absolute poverty rose again abruptly up to 2000, when economic growth re-launched more robustly, and continued to fall until 2010 when the effects of the economic crisis were heavily experienced by population. In 2000, the number of persons affected by absolute poverty was 8,045,000, while in 2010 the number decreased to 1,110,000.



Source: *MLSFP, 2010, NIS data.*

*Figure 2.3. Absolute poverty rates 1990–2010 (%).*

The relative poverty measure is well suited for international comparison as well as for understanding the position that various social groups hold relatively to the national standard of living.

Following, we will detail the various inequalities by social and individual characteristics that are highlighted by the relative poverty measure and we will complete the picture with absolute poverty data only when the latter better highlights disparities. Essentially, poverty profiles based on the relative poverty measure and the absolute poverty measure are very similar.

In regard to *age*, the highest poverty risk is faced by children and youth. In 2010, the poverty risk of persons under 18 was almost two times higher (31.3%) than that of persons of 65 years and over (16.7%). In time, between 2007 and 2010, the poverty risk decreased significantly only for those between 55 and 64 years old and for those of 65 and older (Table 2.2). Although the elderly were a rather vulnerable category in the nineties, lately it registered a higher reduction of the poverty risk probably as a consequence of the increases in farmers' pensions and in the pension re-correlation<sup>17</sup> that was implemented. When looking at absolute poverty, we observe that children and youth (under 30) are indeed most exposed to poverty while representing almost half of the number of people in absolute poverty (MLFSP 2010, NIS data).

Table 2.2

At risk of poverty rate by age (%)

Age	2007	2008	2009	2010
<b>less than 18</b>	32.8	32.9	32.9	31.3
<b>18–24</b>	23.3	22.9	23.2	22.9
<b>25–54</b>	20.8	20.1	20.1	19.4
<b>55–64</b>	20.2	17	15.5	13.9
<b>65 years or over</b>	30.6	26	21	16.7

Source: Eurostat, EUSILC data.

When looking at *household type* (Table 2.3), households with dependent children face a significantly higher risk of poverty than those without children. Most exposed to poverty are the households of two adults with three or more children. In 2010, in Romania, at risk poverty for households with three or more dependent children was the second highest in Europe in 2010 (60.4%) after Bulgaria (65%) and was more than two times higher than the average of EU27 (25.9%). Single persons with dependent children also have high poverty risks.

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<sup>17</sup> A process aiming at eliminating the inequities among pensions in the public system.

In time, from 2007 to 2010 poverty risks decreased for most types of households with the exception of those made up of two adults with dependent children for which the risks increased.

*Table 2.3*

At risk of poverty rate by household type (%)

<b>Household type</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<i><b>Households without dependent children</b></i>	22	18.4	16.5	14.3
<b>single person</b>	36.2	32.9	29.1	26.7
<b>two adults, younger than 65</b>	17	13.8	13.1	13.5
<b>two adults, at least one aged 65 or older</b>	25.8	20	14.5	11.3
<b>three or more adults</b>	16.8	12.7	13.1	10.3
<i><b>Households with dependent children</b></i>	26.5	26.3	26.2	25.3
<b>single person with dependent children</b>	42.5	39.9	35.3	31.9
<b>two adults with one dependent child</b>	14.9	14.1	14.9	16.4
<b>two adults with two dependent children</b>	22.4	24	24.3	26.7
<b>two adults with three or more children</b>	54.8	57.3	56.3	60.4
<b>three or more adults with dependent children</b>	26.7	25.7	25.2	22.4

Source: Eurostat, EUSILC data.

As expected, in regard to *most frequent activity status*, unemployed people are most exposed to poverty (45.4%), facing a risk almost three times higher than the employed (17.2%) and maintaining high and relatively stable risks over time. Other inactive people also face higher poverty risks (Table 2.4).

However, when looking at absolute poverty rates and trying to analyse poverty rates by a more refined activity status, we can observe that the self employed in agriculture have the highest poverty rate (12.9%) representing also the highest share in the number of people in absolute poverty (22.9%). Self employed in non agricultural domain (10.7%) and housewives (10.2) also face higher risks of poverty, while the unemployed ranked fourth, with a poverty rate of 9.4%. Other categories are less exposed to poverty: old people and preschool children (8.4%), students (6.5%), retired (2%) and employed (1%). (MLFSP 2010, NIS data).



Table 2.4

At risk of poverty rate by most frequent activity status (%)

Most frequent activity status	2007	2008	2009	2010
<b>employed</b>	18.3	17.5	17.6	17.2
<b>not employed</b>	27.9	24.7	22.3	20.5
<b>unemployed</b>	46.4	42.7	46.4	45.4
<b>retired</b>	22.9	19	15.7	12.8
<b>other inactive</b>	33.1	31.8	30.7	29.8

Source: Eurostat, EUSILC data.

When looking at *education* (Table 2.5), the data show that highly educated people are well protected against poverty while the least educated (ISCED 0–2) represent the most vulnerable category in this respect. In time, from 2007 to 2010 poverty rates decreased significantly for those with low education.

Table 2.5

At risk of poverty rate by highest level of education achieved (%)

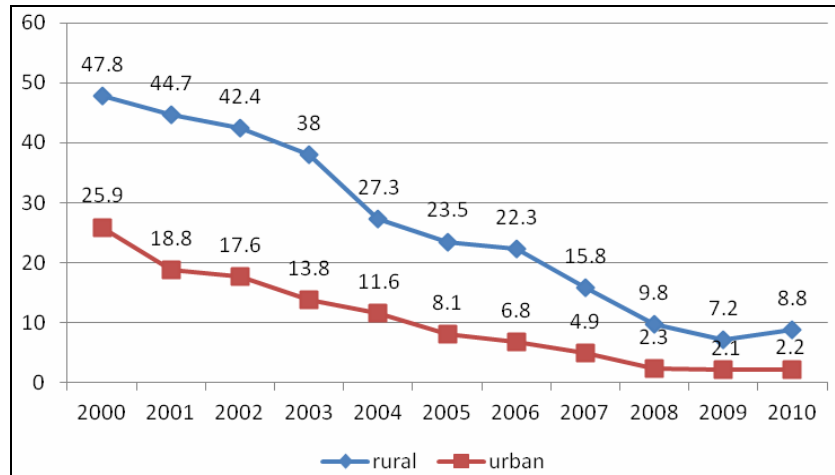
Highest level of education achieved	2007	2008	2009	2010
<b>ISCED 0-2</b>	40.5	36	35.1	33.2
<b>ISCED 3-4</b>	14.2	13.7	12.1	12.5
<b>ISCED 5-6</b>	1.2	0.7	1.6	1.1

Source: Eurostat, EUSILC data.

Inequalities are marked in Romania not only by individual and households characteristics but also by location. NIS data from HBS highlight further inequalities between urban and rural on the one hand and various development regions on the other hand.

At risk of poverty rate was in 2010 three times higher in rural (27.1%) than in urban areas (9%). When looking at absolute poverty, in 2010 the gap between rural and urban areas was even deeper: the absolute poverty gap was four times higher in rural (8.8%) than in urban (2.2%). In Romania pockets of poverty are concentrated mostly in rural areas as 76.7% of the poor are living in rural and only 23.3% live in urban areas. (MLFSP 2010, NIS data).

In time, absolute poverty rates dropped considerably both in urban and rural areas. However, poverty reduction was much more important in urban than in rural: between 2000 and 2010, absolute poverty became 11 times lower in urban and only about 5 times in rural areas. The gap between the two areas tended to deepen with only small variations in time: in 2000 the absolute poverty in rural areas was less than 2 times higher than in urban areas, while in 2010 it was 4 times higher.

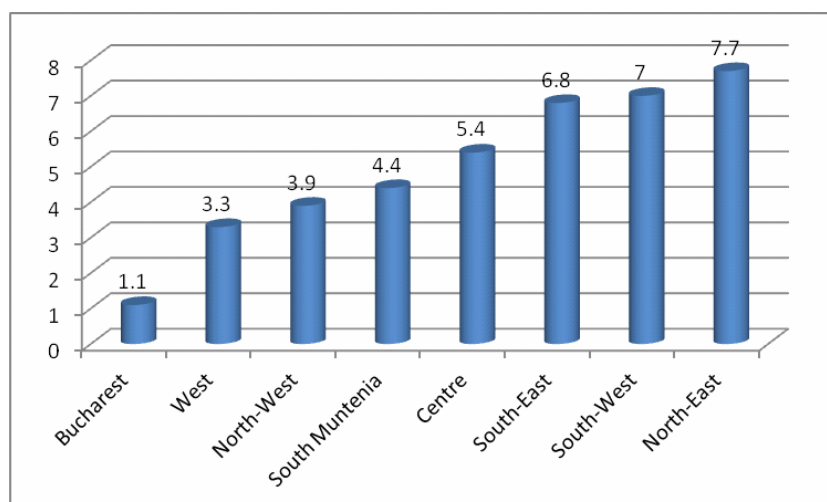


Source: MLFSP 2010, NIS data.

Figure 2.4. Absolute poverty by residence (%).

Looking further at the *spatial distribution of poverty*, big disparities become evident: the highest relative poverty rates are to be found in North-East region (26.2%) and South-East region (23.1%) while the lowest incidence of poverty is in Bucharest-Ilfov region (5.3%). According to absolute poverty rates, the regional divide is even bigger: the poorest region has poverty rates almost 8 times higher than the Bucharest region (Figure 2.5). Some of the disparities deepened in time, even in times of economic growth, when poverty

decreased. For example, in the period 2003–2006 the West region registered a 62% drop in the number of poor, in the South the number of poor was reduced by more than half, while in the Centre region the decrease was much lower, at only 34%. The differences in the pace of poverty reduction lead to increasing regional disparities (World Bank 2007).



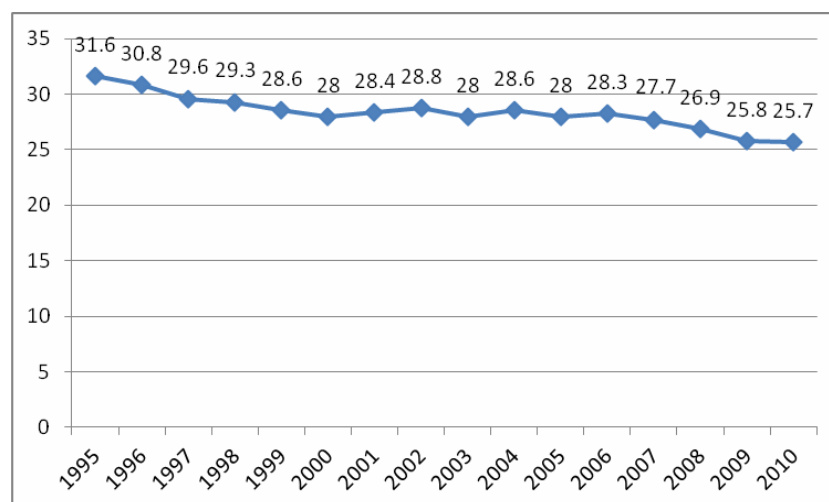
Source: MLFSP 2010, NIS data.

Figure 2.5. Absolute poverty rates by development region (%).

In Romania, there are also important disparities associated with ethnicity. Roma represent a deep pocket of poverty as in 2010 their absolute poverty rate was 31.4% in comparison to that of the Romanian population of 4.4% and of the Hungarian population of 2.4%. Roma absolute poverty rate decreased from 76.8% in 2003 to 31.4% in 2010. However, the gap between Roma and the Romanian gradually increased in time as in 2003 the Roma poverty risk was 3 times higher than the Romanian poverty risk, whereas in 2010 was more than 7 times higher. (MLFSP 2010, NIS data).

### Consumption inequality

Consumption inequality depicts a relatively different picture than the distribution of per capita household net income. Consumption inequality shows relatively stable levels of inequality with a small decrease in time (Figure 2.6).



Source: MLFSP 2010, NIS data.

Figure 2.6. Gini Index – Consumption per Equivalent Adult.

In Romania expenditure on food represents a high share of total consumption. Eurostat data show that, in 1995, food represented 39% of the final consumption expenditure of households while the average of current EU27 was at the time 15%. Over time, along with economic growth, food share in total consumption decreased to a certain extent to the benefit of non-food and services. In 2009, food was 29% of consumption expenditure, still high in comparison to 13% representing the EU27 average. This pattern is in line with theoretical and empirical findings showing that as the level of income increases, the food share in the households' consumption expenditure decreases.

Using a different methodology than Eurostat, a World Bank report (2007, NIS data) also showed the high proportion of food in households' consumption expenditure and highlighted the various discrepancies between income quintiles and urban/rural. The report showed there are large differences between the consumption patterns of rich and poor. While the richest quintile spends less than 40 percent on food products, the poorest spends more than 70 percent on these items. The non-food and services consumption of the richest quintiles is two times higher than the one of the poorest quintile.

In 2006, the share of food in consumption was 44% in urban and 59% in rural areas, lowering from 50% in urban and 68% in rural in 2000. Even though economic growth brought about a certain change in consumption patterns, the gap between rural and urban remained important given that the incomes are also smaller in rural areas (World Bank 2007).

## **2.2. WEALTH AND DEBT INEQUALITY**

There are no studies on wealth based on survey sources for Romania. The only sources of information for wealth are Eurostat financial balance sheets (Credit Suisse report 2010), being thus an incomplete source of data for characterizing wealth inequality.

The study by Credit Suisse (2010) based on financial balance sheets shows that between 2000 and 2010, in Romania, along with other countries around the world like Australia, China, New Zealand, Poland, the wealth is estimated to have tripled. Despite the increase in wealth from 2,848 USD in 2000 to 9,661 USD per capita, Romania is in the "lower middle income" group of countries with the second lowest wealth per adult in EU after Latvia.

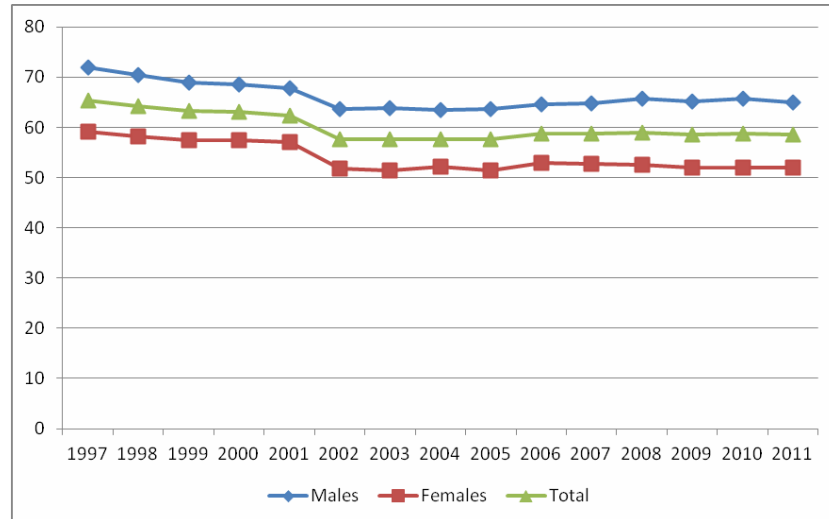
Debts increased from a remarkable low of 60 USD in 2000 per adult to 2,397 USD per adult. To be mentioned here that the high

increase was possible due to the growing availability of bank loans, especially after 2003, when the economic recovery and consequently more stable market conditions encouraged both banks and population to contract credits. Romania has currently the lowest debt per adult in EU.

### **2.3. LABOUR MARKET INEQUALITY**

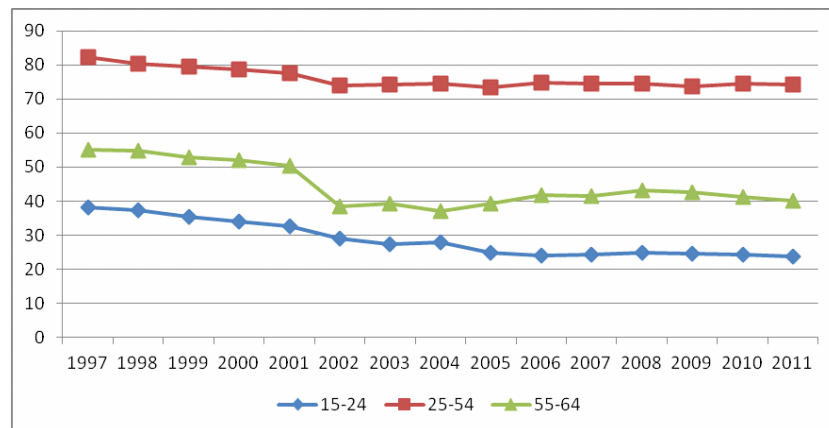
In 2011 the total employment rate (15–64 years old) in Romania was 58.5%, well below the EU 27 average (64.3%) and much lower than the foremost western countries like the Netherlands (74.9%), Sweden (74.1%) or Denmark (73.1%). Employment rates were similar to those in Italy (56.9%) and Bulgaria (58.5%). From 1997 to 2001, employment rates declined continuously and fell more abruptly in 2002, to remain rather stable to the present. The declining employment rates in early 2000s were due to the accelerated reforms and economic restructuring, coupled with early retirement schemes. Migration also influenced employment to a certain extent. For female labour force the drop in employment was a bit sharper than for the male labour force (Figure 2.7). In 2011, female employment rates, although lower than the EU average (58%), were higher than in countries like Greece (45.1%), Italy (46.5%), Hungary (50.6%) and Malta (41%) (Eurostat, LFS data).

Employment rates declined for all age groups (Figure 2.8) in a similar way from 1997 to 2002, when a significant drop was registered for older age groups (55–64), while for the younger work force (15–24) the decline was rather steady. It has been explained (Zaman and Stănculescu 2007) that the early retirement schemes along with the changing working environment can account for the changes evident for the older work force. In this case, employees have not been sufficiently able to adapt to new challenges of market economy especially during the time of economic growth in early 2000s. For younger age groups, increasing enrolment in higher education can explain the drop in activity rates.



Source: Eurostat, LFS data.

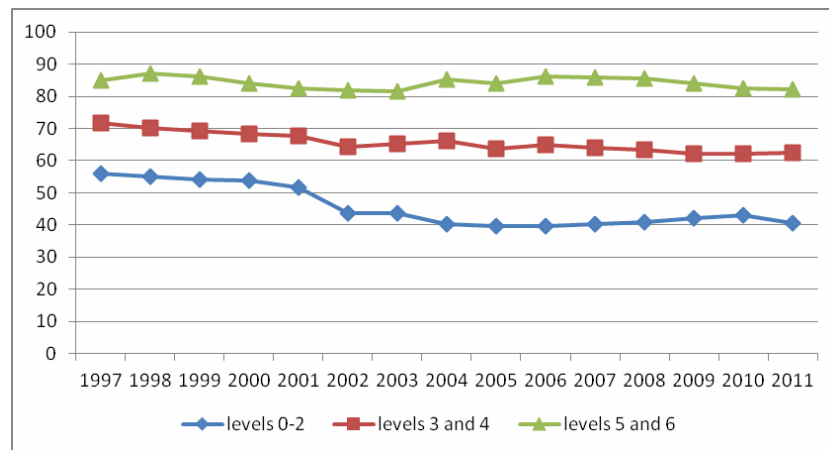
Figure 2.7. Employment rates by gender (%).



Source: Eurostat, LFS data.

Figure 2.8. Employment rates by age (%).

The employment rates of individuals with higher education (Figure 2.9) remained rather stable during the time described by the data and even registered a small increase in 2004. Generally, those with secondary education also have employment rates characterized by stability. Most important decrease in employment rates was registered in early 2000s for those with low education. The economic restructuring at the time seems to have impacted most on the less educated. On the one hand, opportunities are less important for this category on the market, on the other hand, less educated individuals are more strongly represented among older cohorts which went into early retirement at a higher rate than the rest of the population (as also explained by Zaman and Stănculescu 2007).



Source: Eurostat, LFS data.

Figure 2.9. Employment rates by education (%).

Employment rates also vary by region (Table 2.6), from a low 53.5% in the Centre to a high 64.3% in Bucharest-Ilfov region, reflecting disparities in development of the various regions and therefore the different capacity to absorb the work force.



Table 2.6

Employment rates by region (%)

	Employment rate
<b>North West</b>	57.7
<b>Centre</b>	53.5
<b>North East</b>	62
<b>South East</b>	55.5
<b>South Muntenia</b>	59.7
<b>Bucuresti Ilfov</b>	64.3
<b>South West Oltenia</b>	59.2
<b>West</b>	57.9

Source: NIS, Annual Statistical Yearbook, 2010.

In regard to change in employment according to occupational categories (Table 2.7), several occupational categories saw their numbers reduced over time: managers, technicians and associate professionals, skilled agricultural, forestry and fishery workers, craft and related trades workers and plant, machine operators and assemblers. Most of these changes are related to economic restructuring. The occupational categories that saw their numbers increase are professionals, service and sales workers and elementary occupations. In case of professionals, the expansion of higher education can account for their rising numbers, while for service and sales workers, the change in numbers reflects the increasing share in the economy of services.

Table 2.7

Change in employment according to occupational categories (ISCO) (thousands)

	1998	2000	2002	2004	2006	2008	2010	2012
<b>Total employed persons</b>	10,013.3	9,538.5	8,723.4	8,592.3	8,637.3	8,764.5	8,675.8	8,960.6
<b>Managers</b>	278.0	232.9	252.6	255.6	241.7	224.6	170.2	195.3
<b>Professionals</b>	654.6	707.3	675.6	776.0	862.6	945.0	1,059.8	1,236.7
<b>Technicians and associate professionals</b>	946.0	883.3	857.5	832.2	836.7	864.0	818.4	583.0
<b>Clerical support workers</b>	423.3	423.0	394.3	399.7	373.4	448.7	425.2	368.9

Table 2.7 (continuation)

<b>Service and sales workers</b>	725.2	751.4	800.4	843.9	934.8	946.1	1,062.5	1,223.3
<b>Skilled agricultural, forestry and fishery workers</b>	3,157.4	3,088.8	2,369.6	1,986.1	1,913.6	1,675.8	1,728.6	1,841.8
<b>Craft and related trades workers</b>	2,039.9	1,783.3	1,720.9	1,579.6	1,506.3	1,523.5	1,407.6	1,506.1
<b>Plant and machine operators, and assemblers</b>	1,061.4	972.1	973.2	1,058.4	985.6	1,056.9	955.4	935.4
<b>Elementary occupations</b>	727.5	696.5	679.4	860.8	907.5	1,003.9	982.9	988.8
<b>Armed forces occupations</b>	:	:	:	:	75.2	75.7	65.1	81.3

Source: Eurostat, LFS

Note: 1998, 2012 data is for trimester II, 2002–2010 data is for trimester IV.

A specific situation in regard to employment in Romania is represented by the Roma population. A study undertaken in 2011 on Roma population proved that the Roma employment rate is much lower than the national average, being situated at only 35.5% (Preoteasa 2012). The same study showed that inequalities are related to gender, education, age and basic abilities (reading and writing) while residence is not important. Employment rate is significantly higher for men (44.3%) than for women (27.4%), for the higher educated (67%) in comparison to lower educated (33.6%), and significantly lower for younger age groups (16–24) (28%) in comparison to those between 25 and 54 years old (39.3%).

In time, employment rates declined for this population: in 1992, 22% of the Roma (Zamfir and Zamfir 1993) were employed, whereas in 1998 the share of the employed in the Roma population was only 12.9% (Zamfir and Preda 2002). Currently, only 10% of the Roma (Preoteasa 2012) declared being permanently employed over the past two years. A combination of factors contribute to the particularly difficult situation of Roma: the low level of education, low level of

qualification and skills, the tradition of specific jobs which do not match the current conditions on the labour market and the discrimination faced from employers who generally offer less qualified jobs to Roma (Preoteasa 2010, Cace et al. 2010).

### **Unemployment**

In 2011, unemployment rates were moderate in Romania (7.7%) and lower than the EU average (9.7%). Unemployment rate for the youth (Table 2.8) is significantly higher than for other age groups and economic crisis seems to have impacted heavily on this category (15–24) for which unemployment rose significantly since 2008 to the present. Young people in Romania have a higher unemployment rate than the EU average (21.3%), while the other age groups have lower unemployment rates than the EU average.

In regard to education, higher unemployment rates are registered for the low educated, followed closely by those with upper secondary and post-secondary education. In time, a significant increase in unemployment rates is to be observed for the higher educated who show the highest growth during the time described by data: from 2008 to 2011, their unemployment rates almost doubled. This category was especially impacted during the time of the economic crisis, as a particular increase in unemployment rates registered in 2009. This can be explained by the higher graduation rates from tertiary education and the incapacity of the labour market to absorb the more educated labour force during the crisis.

Higher unemployment rates for males than females probably originate in the economic restructuring process, which affected to a higher extent the male workforce. In urban, unemployment are considerably higher than in rural, as agriculture attracted an important segment of the jobless. In 2011, unemployment rate was 8.8 in urban and 5.5 in rural (NIS data). However, it was justified that in the agricultural sector there is also a substantial hidden unemployment (Zaman and Stănculescu 2007).

## *Inequality in Romania: Dimensions and Trends*

*Table 2.8.*

Unemployment rate<sup>18</sup> by age, education, gender and residence (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Total</b>	6.0	6.2	6.9	7.7	7.3	8.8	7.4	8.1	7.5	7.6	6.8	6.1	7.2	7.6	7.7
<b>Age</b>															
15–24	17.4	16.8	17.3	17.8	17.6	22.2	19.5	22.3	20.2	21.4	20.1	18.6	20.8	22.1	23.7
25–54	4.5	4.9	5.8	6.9	6.3	7.3	6.2	6.4	6.4	6.4	5.6	5.0	6.1	6.4	6.4
55–64	0.9	0.5	0.9	1.1	1.7	1.5	1.9	3.3	2.4	2.6	2.3	2.5	3.0	3.3	3.7
<b>Education</b>															
levels 0–2	5.0	4.1	4.8	5.3	5.4	7.6	7.1	9.8	8.0	9.0	8.6	8.6	8.9	7.2	8.6
levels 3 and 4	7.6	7.7	8.5	9.5	8.6	10.0	8.2	8.4	8.1	7.9	6.9	6.0	7.3	8.3	8.1
levels 5 and 6	2.3	2.8	2.8	3.6	3.9	4.1	3.4	3.1	3.9	3.8	3.0	2.7	4.4	5.4	5.2
<b>Gender</b>															
males	5.6	6.3	7.5	8.2	7.7	9.1	7.8	9.4	8.1	8.5	7.6	7.0	8.0	8.2	8.2
females	6.5	6.1	6.2	7.1	6.8	8.3	6.8	6.5	6.8	6.4	5.7	5.0	6.2	6.9	7.1

Source: Eurostat, *LFS data 1997–2010, for 2011 NIS (2011), LFS data*.

## **Wages**

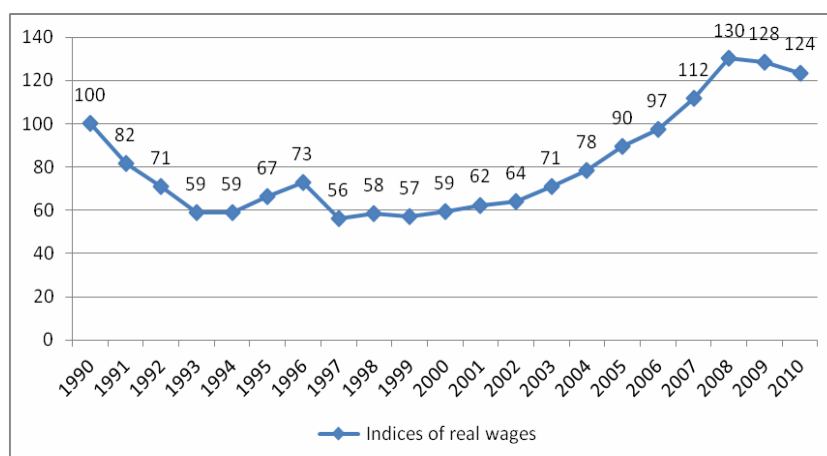
During the first years of transition, real monthly wages diminished abruptly and in 1993 they reached 58.9% of their 1990 level (Figure 2.10). A new record low was registered in 1996 when they were only 56.2% of the 1990 level. They picked up slowly but it was only in 2007 that they superseded their value in the first year of transition.

In 2006, according to Eurostat data, wages in Romania were among the most unequal in the EU: the P90/P10 wage ratio in Romania (5.5) was the second highest in EU after Latvia (6). In the leading countries of the EU, the P90/P10 wage ratio was as low as 2.1 in Sweden, 2.3 in Finland and 2.4 in Denmark.

At household level, wages represent an essential source of income, although their contribution to total income of households remains low in Romania, at about half of the total income. In 2011, wages represented 48.4% of the total incomes of households. For

<sup>18</sup> Unemployment rates figures differ between NIS and Eurostat.

households where the head is employed, wages represented 80.8% of their incomes while for households with the head working in agriculture, wages constituted only 5.9% of their total incomes. Discrepancies are also evident by residence: in urban wages are 62.9% of total incomes whereas in rural they represent only 26% (NIS 2012a).



Source: NIS, Statistical Yearbook, 2011.

Figure 2.10. Indices of real wages (1990=100%).

There are also discrepancies in the way they contribute to household income. In 2007 for the poorest households (first decile) wages represented only 3.8% of their total income, the most important income source for this category being incomes from social transfers (25.2%), followed by income from agriculture (9.2%) and self employment (5%). The most affluent households (tenth decile) relied mostly on income from wages as they represented 74.5% of their total income and self-employment. Income from social transfers constituted 7.3% of total income while non agricultural self employment contributed with 2%.

The average net monthly wage varies by economy sectors. In 2010 (NIS data, Statistical Yearbook 2011) the financial intermediation

and insurance sector had wages far above the national average, more than double the national average and four times higher than the ones in the hotels and restaurant sector. While education and health sectors have wages close to national average, other sectors stand out with much higher wages than the average. The energy, mining and telecommunication sectors have net monthly wages up to two times higher than the average.

A main policy concern has been for a long time the relationship between productivity and wages on one hand and the disparities in wages between public and private sectors on the other hand. It was showed (OECD 2000; Zaman and Stănculescu 2007) that many times in the public sectors wages increased in no relation with productivity, like it was the case prior to election in 2004, and the following two years, while in the private they generally kept up with productivity. An important wage differential that maintained for an important part of the transition was that between some of the former *regies autonomes*<sup>19</sup> and other public enterprises.

In state-owned companies and most *regies autonomes*, the lack of hard-budget limits and other corporate-governance problems contributed to wages becoming out of line with productivity. Several factors accounted for the “soft” budget limits in these enterprises: political interference in banks’ decisions, monopolistic pricing and tolerance of payment arrears (OECD 2000). As a result, enterprises could frequently continue to operate irrespective of heavy losses.

Currently, there is still a wage differential between public and private sectors in favour of public. In 2010 the average net wage was 1,599 RON in public and 1,294 RON in private sector, while the national average was 1,391 RON). The differential lowered in 2010 in comparison to the previous year: the wages in the public sector declined while those in the private sector increased. The decrease in the public sector is explained by the 25% cuts in salaries in 2010.

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<sup>19</sup> State-owned enterprises organized as public utilities. At the end of 90s they started to be transformed into corporations.

Moreover, in the beginning of 2010 the law of unitary salaries was introduced, aimed at reducing the major discrepancies between the various public sector categories of employees by introducing wage coefficients ranging on a scale from 1 to 12. The differences private-public, even though lower in the present, still remain, although they might be in reality a little lower than shown by the data, as in private sector, especially the small and medium sized employees may underreport wages paid in order to minimise payroll taxes.

There is also a wage differential between men and women that tended to deepen a little between 2009 and 2010, which is generally explained by the participation of women in activities with lower value added. The average net wage in 2010 was 1,466 RON in case of men and 1,308 in case of women.

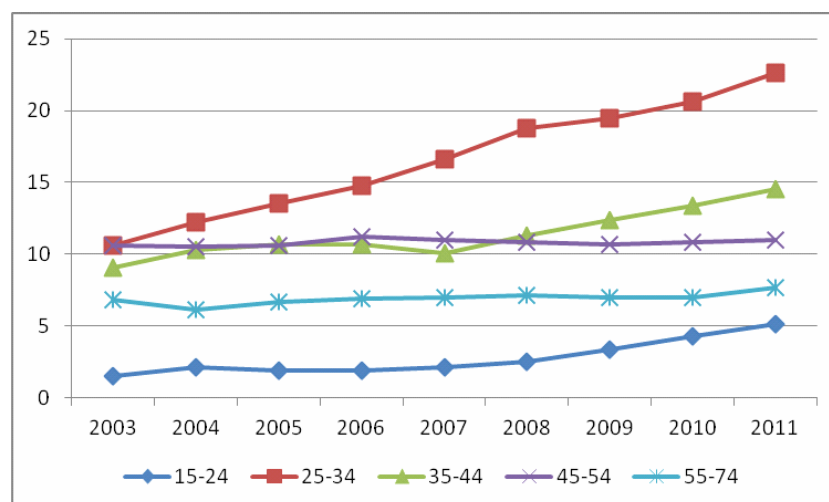
## **2.4. EDUCATIONAL INEQUALITY**

Romania went through a process of educational expansion in the 1960s similar to the other European countries. The most important extension took place between 1960s and 1980s, while in the last decade of the communist regime, the expansion stabilized. The proportion of population attending school saw the highest increase between 1960/1961 and 1980/1981 when it grew from 17.2% in to 25%. The total number of schools grew from 23,890 in 1960/1961 to 29,766 in 1980/1981, registering an increase of 25%. The proportion in total population of students attending higher education also grew from 0.4% students in total population in 1960/1961 to 0.9% in 1980/1981 (based on NIS<sup>20</sup> data). However, higher education was very much kept under control by the communist regime through “numerus clausus” principle. During the first decade of transition, the population attending school started to contract due to lowering fertility, while the number of schools also declined by the end of the decade.

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<sup>20</sup> Own calculations based on NIS data, Statistical Yearbooks.

After 1990, the most important positive development was the expansion of higher education through the founding of new private universities and diversification of curricula in existing state universities. The number of faculties increased 6 times over a decade, from 101 in 1989/1990 to 629 in 2010/2011. Enrolment rates in higher education grew from 27.7% in 2000/2001 to 53.6% in 2007/2008 when they reached their peak and have been on the decrease since 2009, reaching 45% in 2009/2010 (Ministry of Education, 2008, 2010). The development of higher education was beneficial for younger generations (Figure 2.11) as well as for the middle age generations who were not able to get a degree in communist times due to the policy at the time. The higher education attainment of the 15–24 age group more than tripled between 2003 to 2011 and doubled for the 25–34 age group.



Source: Eurostat.

Figure 2.11. Higher education attainment by age (%).

In recent years, the average years of education increased from 14.6 years 2000/2001 to 16.3 years in 2009/2010 (Ministry of



Education 2010). This recent increase is mainly due to the expansion of higher education.

Although higher education underwent an important extension, according to Eurostat data<sup>21</sup>, in 2011 in Romania the proportion in active population of persons with tertiary education was the lowest in Europe, at 13%, and much lower than the EU average (23.6%).

Table 2.9

Distribution of active population (15-64) by educational attainment and residence (%)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Tertiary</b>	total	9.5	10	10.5	10.6	12.1	12.7	13.7	14.6	15.4	16.4
	urban	16	16.6	12.8	17.2	19.1	20.1	21.4	22.8	23.8	25.4
	rural	2.1	2.3	6.6	2.6	2.8	2.9	3.2	3.5	3.8	4
<b>Postsecondary</b>	total	4.7	4.8	4.9	4.5	4.8	4.8	4.8	4.6	4.4	4.2
	urban	7.5	7.6	7.5	7	7	7.1	6.9	6.5	6.3	6
	rural	1.6	1.7	4	1.6	1.9	1.9	1.9	1.9	1.9	1.6
<b>Upper secondary</b>	total	32.8	32.7	32.4	32.5	32.2	32.3	33.3	33.7	33.1	33.9
	urban	40.5	40.4	39.8	10	38.4	38.9	39.5	39.9	38.6	39.6
	rural	24	23.8	17.5	23.3	24.1	23.6	24.7	25	25.7	26
<b>Vocational</b>	total	24.3	25	26.1	26.5	26.9	27.1	26.7	26.4	26.1	24.3
	urban	25.5	25.4	30.1	26	25.3	24.8	23.6	22.9	23.5	21.2
	rural	23	24.5	26.4	27	29.1	30.2	31	31.2	29.9	28.6
<b>Lower secondary</b>	total	20.5	20.2	20	20.5	18.5	18.1	17.4	16.8	17.4	18
	urban	8.6	8.3	8.4	8.4	8.6	7.8	7.2	6.4	6.5	6.7
	rural	34.1	33.8	33.8	35.1	31.6	31.6	31.3	31.2	32.5	33.5
<b>Primary</b>	total	8.2	7.3	6.1	8.3	5.5	5	4.1	3.9	3.6	3.3
	urban	2	1.7	1.5	1.3	1.7	1.4	1.4	1.5	1.4	1.3
	rural	15.3	13.8	11.6	10.4	10.5	9.8	7.9	7.3	6.6	6

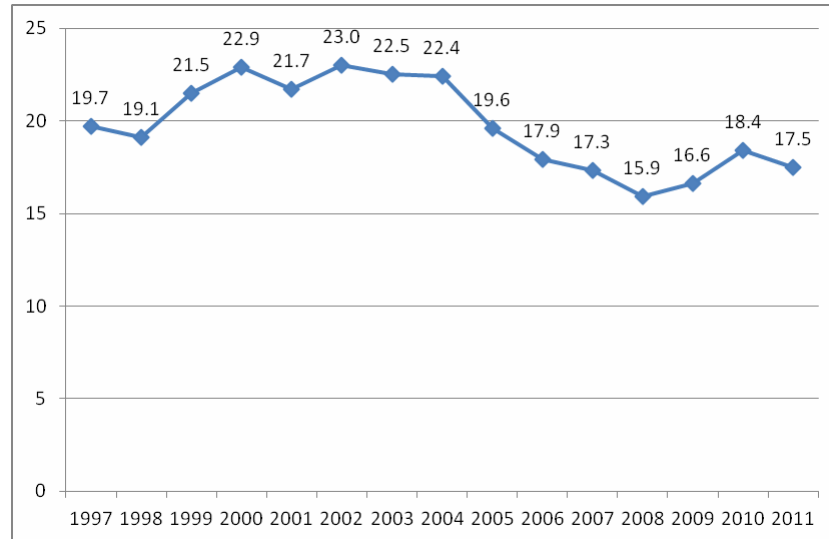
Source: Ministry of Education, 2008, 2010, LFS data.

Romania has a high proportion of early leavers<sup>22</sup> (Figure 2.12), currently 17.5%, higher than the EU average (13.5%). In the EU, the proportion of early leavers varied in 2011 between 4.2% in Slovenia and 26.5% in Spain.

<sup>21</sup> Eurostat figures slightly differ from national ones. Table 2.9 includes national data that allows breakdown by residence.

<sup>22</sup> Early leaver from education and training generally refers to a person aged 18 to 24 who has finished no more than a lower secondary education or training.

### *Inequality in Romania: Dimensions and Trends*



Source: Eurostat.

Figure 2.12. Early leavers (%).

A series of inequalities characterize education in Romania, among which those determined by income, residence and ethnicity are crucial.

Although public education is tax free, income introduces an important divide in education. A series of costs are associated with education (transportation, clothing, meals, sometimes textbooks etc.). These costs introduce a divide between low income families and the rest of the population in what regards access to schools as the low income households can hardly afford all the mentioned costs. Income becomes important also when looking at quality of education. Private tutoring is a widespread model in Romania for those who can afford it. The purpose of private tutoring is to prepare children for various school contests, supplement low quality education in some schools or disciplines, prepare the children for evaluations and admissions etc. Consequently, those who cannot afford private tutoring and rely on the public education system are disadvantaged in comparison to the

others. Moreover, the introduction in lower secondary of tax based school competitions which count towards the children's portfolio for high school admission (although it is not yet clear what their role is) discriminate between children coming from low income families, who cannot afford to pay the taxes for participation and the others who appear to have better chances in accessing high schools.

Another important divide is the omnipresent rural/urban disparity that is evident in the various indicators describing education in the two settings. While schools in urban areas generally have a better infrastructure, higher qualified staff and provide better opportunities for their students, those in rural areas tend to illustrate the opposite.

The proportion of qualified personnel in urban areas during the last decade is significantly higher than in rural. In the case of early education, the qualified personnel in 2009/2010 was 97% in urban in comparison to 93.2% in rural areas while in the case of lower secondary, it was 98.7% in urban in comparison to 95.6% in rural areas (Ministry of Education 2010). There was an increasing trend in time in hiring qualified personnel, while the gaps between the two settings tended to lower, especially during the past years.

The students per teaching staff ratio also varies by residence: in 2009/2010 the ratio was 16 in urban and 19 in rural in case of early education, while for primary education the ratio was 15 in rural and 19 in urban whereas for the other levels the differences are not significant.

Participation in education also varies by residence. In 2009/2010, participation rate in early education in urban areas was 80.7% while in rural areas was 76%. In time, there was an increasing trend in participation rates from 66.1% in 2000/2001 to 82.1% in 2009/2010, but the gap between urban and rural areas remained relatively stable. Participation in lower secondary education, although high (98.3%) in 2009/2010, also displays the same divide between residences: 106.4%<sup>23</sup> in urban and 91.2% in rural areas. The gap becomes deeper in case of

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<sup>23</sup> Percentages over one hundred are due to repeaters and children who go back to school after temporary leaving the system.

upper secondary education; participation rate is 110.6% in urban and 81.9% in rural. Dropout rates are also higher in rural in comparison to urban areas (Ministry of Education 2010).

Participation rates in higher education are more than double in urban (56.3%) than in rural areas (27.2%). This pattern shows the significantly lower opportunities that rural areas provides to children in comparison to urban areas all along their educational path. In fact, as showed by a study by Voicu and Vasile (2010), a series of factors cumulate in rural that influence the decision to enrol in higher education: values in the network of friends, distance to the university, the demand for higher education graduates on the labour market and the quality of education at lower secondary level. To this, we might add the lower standard of living in rural areas which impedes on choosing longer educational paths by students and their families. The quoted study showed that expansion of higher education in the '90s contributed to higher inequalities, but the years 2000 marked a diminishing of quantitative access inequalities between residences.

The urban/rural divide is much more obvious when looking at the distribution of population by educational attainment in rural and urban areas (Table 2.8). In 2009, only 4% of population living in rural had a university degree, while the percentage was 25.4 in urban areas. The divide maintains in favour of urban for higher levels of education (upper secondary and postsecondary) and reverses for lower levels of education (vocational, lower secondary and primary). For these lower levels, the proportion of graduates is much higher in rural than in urban areas.

A study on Roma (Tarnovski 2012) showed that 20% of the children (6–16 years old) were not enrolled in school. According to the study, illiteracy affects 25% of the Roma aged 16 and older, being higher in rural, Roma compact communities and among women. Educational attainment, as showed by the quoted study, is very low among Roma, as almost half either have no formal education or graduated primary school, around one third graduated lower secondary education while only 15% have upper secondary education. Those with a university degree are only 1%.

A series of vulnerable groups of children face more important problems in regard to participation in education. A study dedicated to risks and inequalities (Preda 2009) highlighted several vulnerable groups: children coming from disadvantaged families, Roma children, HIV infected or children with special educational needs. A complex array of factors can account for their limited access to education. In case of poor children and Roma, the characteristics of communities in which they live impact on their integration in schools: poor development of educational infrastructure or distance to schools, inadequate transportation facilities, lack of positive models in their community of origin etc. The quoted report showed in the case of Roma children that school segregation influences school performance, while further barriers to successful integration are the cultural orientations of Roma, as well as discrimination on the part of schools and society in general. The low participation in education of HIV infected children and of those with special educational needs are largely determined by the culture of the educational organization and teachers, inappropriate facilities for disabled persons, a low number of places in early education system that doesn't allow full participation of children.

Transition to labour market is rather difficult in Romania and is evident in the high unemployment rate of young population which is 23.5% for the age group 15–24 much higher than the 7.4% rate at national level (NIS, 2011 data). There is a sort of asymmetry between the education system and the modern requirements of the labour market, as the education system is not flexibly adapted to the needs of labour market. Most of the explanations converge towards the idea that the many reforms of the education system did not achieve their goals and the system continues to follow old ways. To the mismatch between supply and demand contributes the low participation in adult training in Romania in comparison to other European countries. In 2011, only 1.6% of 25–64 year olds have received education or training, compared to a an EU27 average of 8.9%. The skills gap in the labour market is also influenced by the emphasis for a relatively long time on vocational education at the secondary level and the relatively modest coverage of higher education (World Bank 2008).

### **Returns to education**

Romania is characterized by low returns to education and even though an increasing trend in time is noticeable, the growth is still modest. A report by the World Bank (2008) showed that average returns to one year of schooling are less than 6% in Romania in comparison to over 10% worldwide. Returns to schooling are low for those with less-than-tertiary education, especially for the graduates of vocational secondary schools who are working in the private sector. The report reveals that poor children are more likely to be directed into low-return education paths (namely vocational schools), while wealthy children are more likely to attend general secondary and tertiary education institutions. This has obvious implications for the reproduction of inequality. For tertiary education, returns to education are significantly higher (also visible in Table 2.10), earnings being 55% higher than in case of basic education, even though they are still significantly lower than in other countries of the World (World Bank 2008).

*Table 2.10*

Monthly earnings (EUR), 2002

<b>Pre-primary, primary and lower secondary education (levels 0-2)</b>	<b>Upper secondary education (level 3)</b>	<b>Post-secondary non-tertiary education (level 4)</b>	<b>First and second stage of tertiary education (levels 5 and 6)</b>
125.10	158.77	214.83	349.21

Source: Eurostat, *Structure of Earnings Survey 2002*.

## **CHAPTER 3**

### **THE SOCIAL DIMENSIONS OF INEQUALITY**

This chapter is dedicated to the social dimension of inequality in Romania. It is an endeavour to include a large array of social dimensions by describing their current layout and trends over time. The goal of this section is to scrutinize whether the increasing income inequality during the past two decades in Romania (as shown in Chapter 1) was accompanied by a rise of inequality in various social dimensions as some scholars proposed (Wilkinson and Pickett 2009). The relationship is not tested as such, but we rather look at trends over time and rely on data and literature to understand the divisions between social groups that characterize the social set up of Romania in the main social domains. We start with material deprivation, cumulative disadvantage and multidimensional measures of poverty and social exclusion, patterns and trends in housing. Following, the chapter treats social cohesion and social capital, family formation and breakdown, lone parenthood and fertility, health inequalities, crime and punishment, subjective well-being and intergenerational mobility.

The data used rely on both national and international sources. Eurostat is mainly used to compare Romania to other countries in Europe and EU averages. Time series are sometimes shorter for Romania than in other European countries as is the case with EUSILC that was implemented only in 2007 in the country. National sources of statistical data (NIS) are also employed, while national surveys provide us with trends in time and specific information on the country. *Quality of Life Diagnosis*, a national survey, provided us with subjective indicators as a continuous time series for 1990–1999 and then as measurement at

every three-four years: 1999, 2003, 2006, 2010. International surveys like *Eurobarometer* and *European Quality of Life Survey* (EQLS) 2003 and 2007 were used to provide data for subjective well being.

The comparisons are made, based on data, with individual countries in the EU mainly those who are at the extremes, either positive or negative. Comparisons are also made to EU averages, mostly EU27, EU15 and NMS12.

### **3.1. MATERIAL DEPRIVATION**

Material deprivation proposes a multidimensional perspective of poverty by going beyond the limited income measure and capturing the inability of people to participate in their society due to lack of resources. This perspective is especially fruitful when using a comparative perspective and particularly when aiming at describing living standards across countries which are very diverse in term of affluence as is the case in the EU (Whelan and Maitre 2012).

Material deprivation comprises the enforced lack of items that are customary in a certain society at a certain point in time, that people would like to possess (have access to) but cannot afford them (Eurostat 2010).

The Eurostat material deprivation rate is calculated on the basis of EU-SILC data and is based on the following 9 items: 1. to face unexpected expenses; 2. one week annual holiday away from home; 3. to pay for arrears (mortgage or rent, utility bills or hire purchase instalments); 4. a meal with meat, chicken or fish every second day; 5. to keep home adequately warm; 6. to have a washing machine; 7. to have a colour TV; 8. to have a telephone; 9. to have a personal car. People who are materially deprived cannot afford at least three items in the list. Material deprivation rate was calculated for Romania starting with 2007, when EUSILC was implemented in this country.

Table 3.1 presents the levels of material deprivation in Romania in comparison to EU averages. Romania has the second highest



deprivation rate in the EU, after Bulgaria: around half of the population lacks at least three items. Although between 2007 and 2010 deprivation rate slightly decreased, Romania still maintains its top ranking in the EU. Material deprivation rate is almost three times higher than the average of EU27 and around 4 times and a half than that of more advanced countries like Germany (11.1%) or Austria (10.7%).

This indicator speaks of the low standard of living in Romania as well as the low degree of modernization in this country: with a high proportion of underdeveloped rural countryside, it is expected that this setting has a heavy contribution to the high material deprivation rate.

The period described by the data was at the household level a time of accumulation (especially between 2007 and 2009) for a population that was generally materially deprived in comparison to the standard of the developed countries. The gap that separates Romania from the leading countries of the EU still remains huge.

Over the time described by the data, 2007–2008 was a period of economic growth, while 2009 marked a significant decrease in the economic output as the crisis reached Romania. At household level, the crisis started to bear effects in 2010. Income inequality steadily decreased over this period of time.

Table 3.1  
Material deprivation rate (%)

	2007	2008	2009	2010
<b>Romania</b>	<b>53.3</b>	<b>50.3</b>	<b>49.3</b>	<b>49.2</b>
<b>EU27</b>	17.9	17.3	17.1	17.5
<b>EU15</b>	12.0	12.5	12.5	13.0
<b>NMS12</b>	40.4	35.4	34.5	34.6

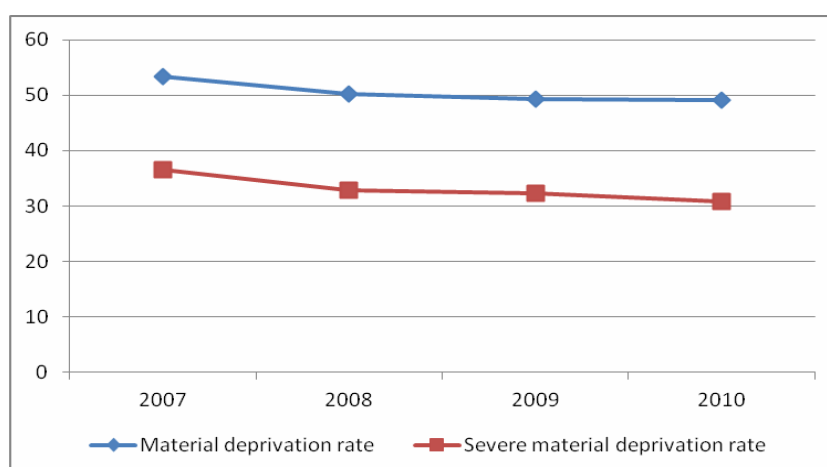
Source: Eurostat (EUSILC).

Note: Lack of 3 items or more.

Figures 3.1 and 3.2 include severe material deprivation rates. The indicator of severe material deprivation is defined in terms of households being deprived of any four of the nine items. This measure has been

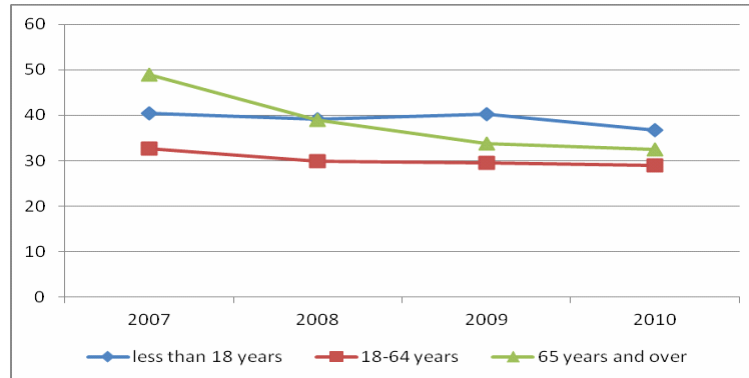
included, along with the risk of poverty and jobless households, as one of the Europe 2020 headline targets to indicate progress towards reducing poverty and social exclusion. Severe material deprivation rate is lowest for the age category between 18 and 64 years old. Over time, a slight but significant decrease in severe deprivation rates registered for those over 65 years old.

Severe material deprivation varies to a great extent by household type (Table 3.2), being significantly higher for single persons, single persons with dependent children and couples with three or more dependent children. Although the general trend between 2007 and 2010 was a decrease in severe material deprivation, for couples with at least three children, the trend was reversed as severe material deprivation registered an increase. The number of children significantly adds to deprivation, being one the most important factors of poverty in Romania.



Source: Eurostat (EUSILC).

*Figure 3.1. Material deprivation rate and severe material deprivation rate (%).*



Source: Eurostat (EUSILC).

Figure 3.2. Severe material deprivation rate by age (%).

Table 3.2

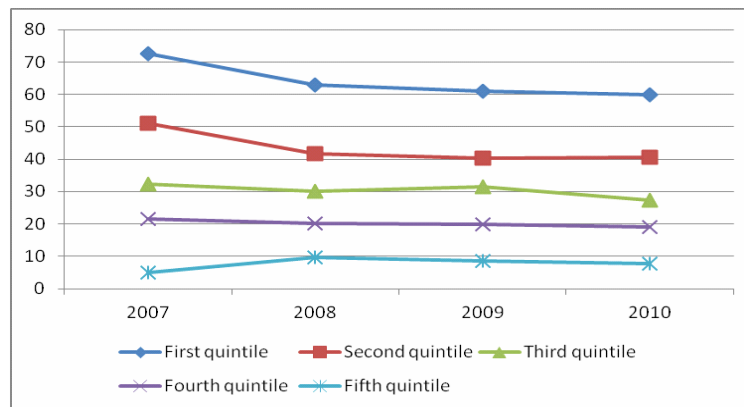
Severe material deprivation rate by household type (%)

Household type	2007	2008	2009	2010
<b>Households without dependent children</b>				
single person	54.2	43.5	39.6	40.4
two adults, younger than 65	29.4	25.5	23.0	22.7
two adults, at least one aged 65 or older	49.0	36.2	30.7	30.3
three or more adults	31.6	28.8	27.5	27.3
<b>Households with dependent children</b>				
single person with dependent children	54.9	53.5	51.4	42.0
two adults with one dependent child	23.2	21.1	21.4	24.7
two adults with two dependent children	30.9	27.0	25.8	24.8
two adults with three or more children	57.6	57.6	60.4	62.8
three or more adults with dependent children	37.3	35.7	37.1	33.1

Source: Eurostat (EUSILC).

The level of severe material deprivation varies by income quintile (Figure 3.3), with the fifth quintile having deprivation levels similar with the total material deprivation rates of the developed countries in the EU and the first quintile facing extremely high deprivation levels, reaching over 70% in 2007. However, for the poorest two quintiles, a

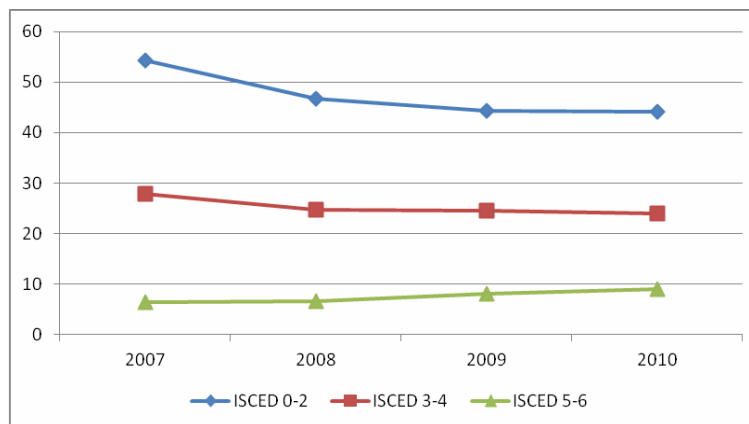
small but significant decrease took place between 2007 and 2010, even though deprivation levels remain very high.



Source: Eurostat (EUSILC).

Note: Income is equivalised disposable household income.

Figure 3.3. Severe deprivation rate by income quintile (%).



Source: Eurostat (EUSILC).

Figure 3.4. Severe deprivation rate by education (%).

As expected, severe deprivation rates are highest among the low educated. In time though, the rates decreased for this category by 10 percentage points.

### 3.2. CUMULATIVE DISADVANTAGE AND MULTIDIMENSIONAL MEASURES OF POVERTY AND SOCIAL EXCLUSION

#### Poverty risk and vulnerability

Relative poverty, calculated by using a threshold fixed at 60% of the national annual median disposable income was 21.1% in 2010 (Eurostat data) and showed little change since 2000 to the present. The most vulnerable groups<sup>24</sup> in Romania, in regard to *age*, are children and youth. When looking at *household type*, households with dependent children face a significantly higher risk of poverty than those without children, while most exposed to poverty are the households of two adults with three or more children.

When taking into consideration *the activity status*, the unemployed and other inactive people have high poverty rates. Absolute poverty figures reveal that the self employed in agriculture are also a vulnerable group, representing the highest share of the number of people in absolute poverty.

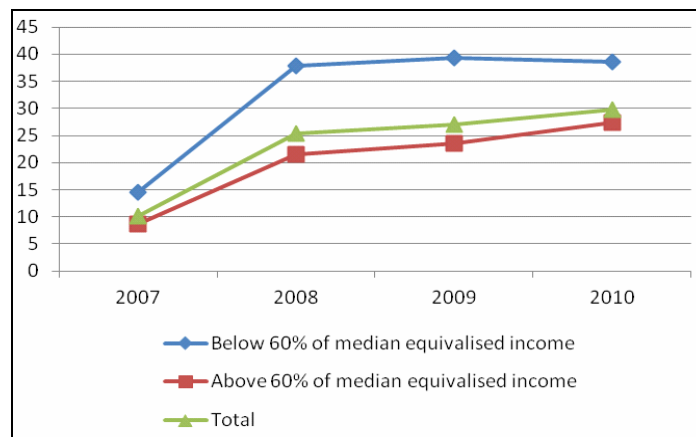
In this section, we present trends in two indicators of poverty of risk and vulnerability: arrears of payment and difficulties to make ends meet.

In 2010, Romania had the third highest proportion in the EU of the population in arrears of payment: 29.8%. Similar percentages had Bulgaria (33.8) and Greece (30.9%). At the other end of the scale, Netherlands and Germany only had 4.9% of their respective population in arrears of payment.

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<sup>24</sup> Chapter 2 details trends in at poverty risks and also describes in more depth vulnerable groups.

Between 2007 and 2010 (Figure 3.5), in only 4 years, the percentage of population in arrears of payment increased three times in Romania. While most of the countries in the EU experienced a relative stability for this indicator, Romania experienced the highest increase in the union. This can be explained through a significant rise in availability of bank loans for homes and consumer goods and a consequent growth in the number of mortgages and credits as well as by the consequences at household level of the economic contraction of 2009–2010. As expected, income differentiates in arrears of payment between those living in relative poverty and those who are not.

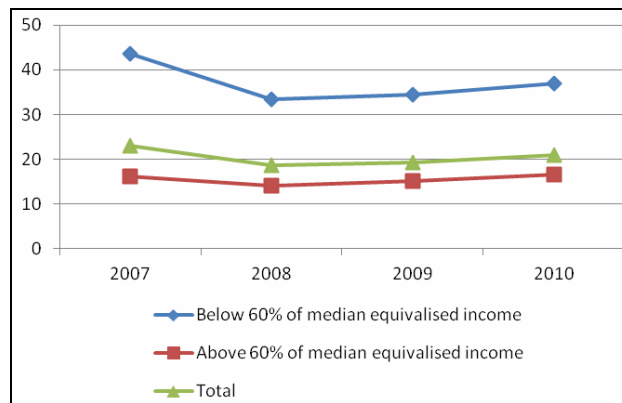


Source: Eurostat (EUSILC).

Figure 3.5. Arrears (mortgage or rent, utility bills or hire purchase) by income threshold (%).

Figure 3.6 presents data for inability to make ends meet. Around one fourth of the population had great difficulties to make ends meet in 2010 in Romania, which placed the country next to Hungary (25.3%), Greece (24.2%) and Portugal (20.3%) but well below Germany (2.8%) and Luxembourg (1.9%). In time, during 2007 and 2010, the gap between Romania and other countries in the EU seem to narrow a little in regard to inability to make ends meet. As expected,

there is a great disparity between those below 60% of median equivalised income and those that are above.



Source: Eurostat (EUSILC).

Note: Households making ends meet “with great difficulty”.

Figure 3.6. Inability to make ends meet by income threshold (%).

### EU 2020 target

At risk of poverty or social exclusion, according to the definition adopted for the Europe 2020 strategy, is the share of the population in at least one of the following three conditions: 1) at risk of poverty, meaning below the poverty threshold, 2) in a situation of severe material deprivation (lacking at least four items covering from the list detailed above), 3) living in a household with a very low work intensity (people aged 0-59 living in households where the adults work less than 20% of their total work potential during the past year).

Romania and Bulgaria (41.6%) had in 2010 the highest proportion of population at risk of poverty and social exclusion in the EU. Romania has a rate of at risk of poverty or social exclusion (Table 3.3) almost twice as high as the average of EU27. Between 2007 and 2010, the rate steadily decreased to a certain extent, without making an impact on the gap between this country and the more affluent countries in the EU.

*Inequality in Romania: Dimensions and Trends*

Table 3. 3

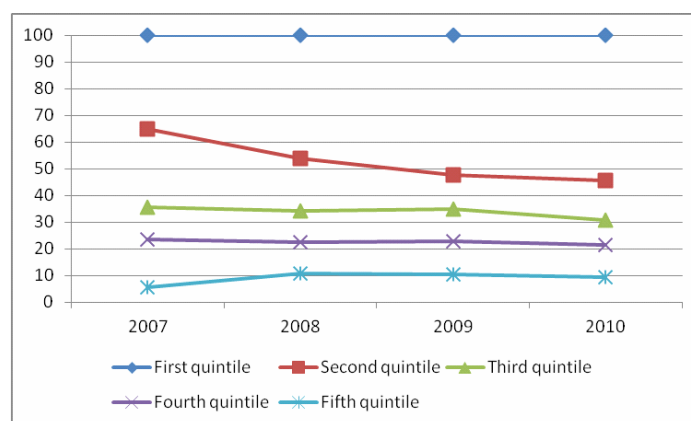
At risk of poverty or social exclusion (EU 2020 target) (%)

	2007	2008	2009	2010
<b>Romania</b>	<b>45.9</b>	<b>44.2</b>	<b>43.1</b>	<b>41.4</b>
<b>EU27</b>	24.4	23.5	23.1	23.4
<b>EU15</b>	21.6	21.4	21.2	21.7
<b>NMS12</b>	35.0	31.2	30.6	30.2

Source: Eurostat (EUSILC, EU 2020 target).

A very clear social differentiation is evident in data with regard to both incomes and education.

In regard to variation by incomes, Romania shares the model of Latvia, Bulgaria and Greece where all the people in the first quintile are at risk of poverty or social exclusion. For the category with smallest incomes, the situation remained stable during the period covered by data. The poorest segment of population differentiates greatly from the next category, the second quintile, where situation is better and slightly improved in time (Figure 3.7).

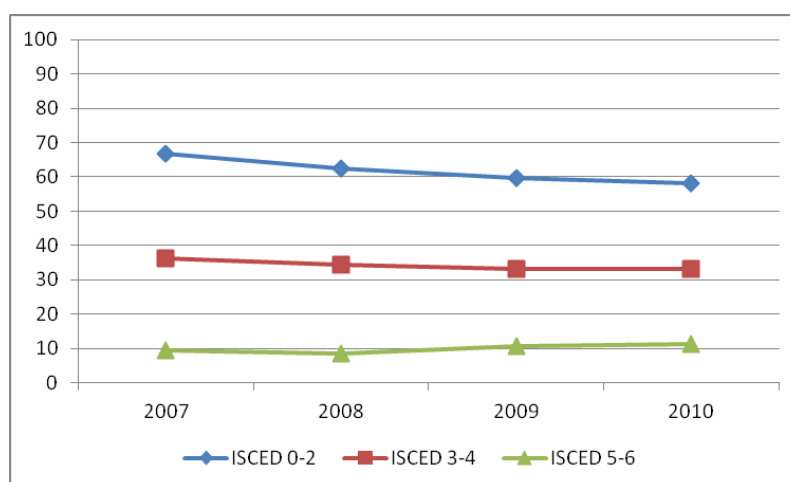


Source: Eurostat (EUSILC, EU 2020 target).

Figure 3.7. People at risk of poverty or social exclusion by income quintile (%).



The EU2020 target varies by education level (Figure 3.8), as expected, and the data clearly shows that the better educated are also better off. A little decline in time is observed for the least educated category of population.



Source: Eurostat (EUSILC, EU 2020 target).

Figure 3.8. People at risk of poverty or social exclusion by education (%).

### 3.3. SOCIAL COHESION AND SOCIAL CAPITAL

The concept of social cohesion incorporates two dimensions which are analytically distinct (Berger-Schmitt 2002):

- the first one concerns the reduction of inequalities, disparities and social exclusion;
- the second dimension refers to the strengthening of social relations, interactions and ties. This refers to the components of social capital.

Social cohesion and social capital are closely connected as the social capital of a certain society is underpinning all efforts aiming at

the reduction of inequality and thus is furthering more equal societies through solidarity among their members.

Social capital includes features of society like relationships and interactions, reciprocal feelings of trust and commitment based on common norms and values, a consequent sense of belonging and solidarity that makes the glue of a community or an entire society.

Putnam, who largely founded the current approach of social capital, after the concept had been earlier given prominence by Bourdieu, defined social capital as “features of social organisation like networks, norms and trust that facilitate cooperation and coordination for the mutual benefit” (Putnam 1993a, 23). Coleman, another prominent author in the field, used a more extended and general approach, considering social capital as a variety of different entities that have two elements in common: “they consist of some aspect of social structure and they facilitate certain actions of actors – whether personal or corporate – within the structure” (Coleman 1988, 98). The same author distinguished between social capital within the family and social capital outside the family, while also considering the quality of social capital as a public good. A series of authors (Putnam 1994, Coleman 1988, Narayan 1999, Voicu 2010) pointed out to the relationship between social capital and the well being of a social entity, either community or society. Social capital is considered to contribute to general improvements in society in various welfare domains like health, education, environment or reduction of crime.

The main bulk of literature takes into consideration three dimensions of social capital:

- interpersonal relations among family members, within kinship group, among friends etc;
- civic engagement and participation in voluntary organisations;
- generalised trust in people and trust in institutions.

In regard to social relationships, Romania has been described as a country characterized by “bonding” relations, mainly developed within the family and kinship groups, being thus a rather traditional country in this respect (Precupețu 2007). In Romania, “both involvement

in networks of friends and trust in people, minority groups or institutions display lower levels in comparison to other European societies. Moreover, networks of useful relations are rather scarce” (Voicu 2005, 159).

For Romania, a series of authors (Mărginean 2006, Voicu 2005, Sandu 1999) showed that social relationships have been shaped by the communist heritage characterised by high distrust in others outside primary groups, in social institutions and by the subsequent social isolation. Moreover, Romania is a country with no historical tradition of civil society that has tried during transition to build this sector from scratch. “Communist period furthered atomisation processes, cultivated suspicion and lack of transparency, while social order was based not on trust but on institutional fear. Socialism acted as a factor of anti-modernization” (Sandu 1999).

In fact, Romania shares the model of the other post-communist countries which also exhibit low levels of bridging social capital (connecting relationships, outside the primary groups) (Bădescu and Uslaner 2003, Voicu 2005).

Voicu (2010) tested the influence of communist past on bridging social capital in Eastern European countries. The author confirmed through his analysis the presence of a certain negative effect of the communist rule on the frequency of meeting friends and trust in institutions. He discovered that the residents of the Eastern European countries tend to meet their friends less often than Western Europeans while they also have a lower level of trust in institutions (Voicu 2010).

Generalised trust<sup>25</sup> placed Romania in the 2008 EVS study<sup>26</sup> among other countries in EU with low trust in people: Bulgaria (18%), Hungary (21%), Portugal (20%). In Romania only 18% declared that most people can be trusted, while in western countries trust in people is more widespread and goes up to 76% in Denmark and 70% in Sweden. It should be noted though, that trust varies to a great extent

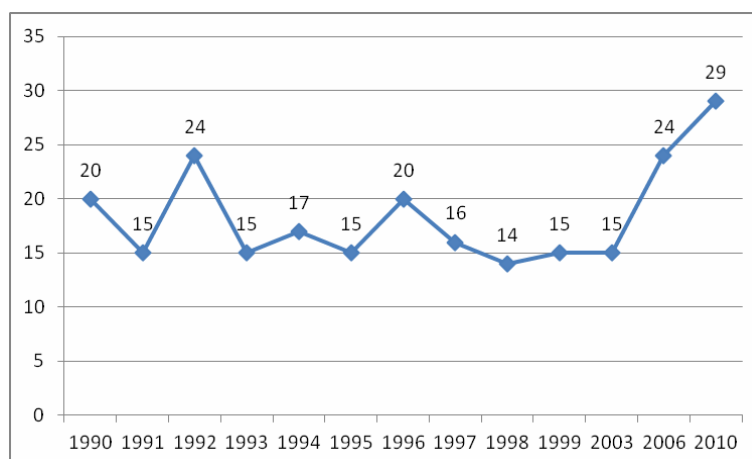
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<sup>25</sup> Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people? 1. most people can be trusted, 2. can't be too careful.

<sup>26</sup> Source: EVS 2008, GESIS.

for western countries, while in eastern countries the levels of trust tend to be generally low.

The frequency of social contacts is low, as described by the data (Figure 3.9). Over time, the trend in the levels of social contact was described by small fluctuations, while in the recent past (from 2003 to 2010), which was a little bit more prosperous economically, significant increase was registered.



Source: *Quality of Life Diagnosis, Research Institute for Quality of Life*.

Question: How often do you take part in the following: Meetings, parties, visits with friends and relatives? 1. Not at all, 2. Rarely, 3. Often.

Note: Proportion of people who declare they take part "often" in such meetings.

*Figure 3.9. Frequency of contacts with friends and relatives (%).*

Membership in associations is also low in Romania, as shown by Voicu (2010), only 8% of Romanians were part of at least one association, this being the lowest proportion of participation in Europe<sup>27</sup>. This can be explained by a series of factors, among which poor structural opportunities for participation, weak tradition of non-governmental

<sup>27</sup> EVS/WVS 1999–2002.

organizations in Romania as well as poor individual resources might explain the low level of participation.

### **3.4. FAMILY FORMATION AND BREAKDOWN, LONE PARENTHOOD AND FERTILITY**

#### **Fertility rates**

Fertility rates are currently low (Figure 3.10), Romania sharing the model of countries like Latvia, Hungary and Portugal with the lowest fertility rates in Europe.

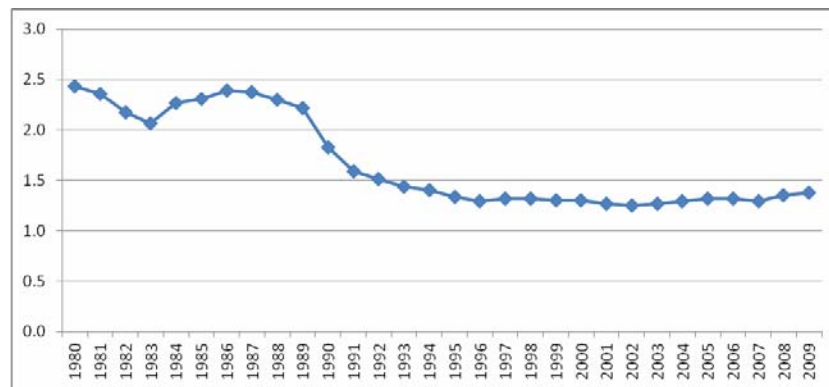
Overall, economic prosperity has a positive bearing on fertility and usually periods of economic growth will bring about raising fertility rates, while recession will have the opposite effect (d'Addio and d'Ercole 2005). In addition to this, demographic and family policies can also contribute to fertility rates.

For the communist period, demographic and family policies were of key importance in influencing fertility rates, whereas for the period after 1990 economic recession was crucial in determining fertility.

The communist regime introduced a pro-natalist policy in Romania, in its attempt of creating a large and well educated work force. During the 60s, the time of sexual revolution in western countries, contraception had not been introduced in Romania and all throughout the communist period contraception methods were not officially available. Abortion was mainly used as a family planning method. Abortion was legalized in 1957 and was employed at the time on a large scale. As part of the pro-natalist policy, abortion was banned in 1966 by the communist regime and, as a result, the number of live births increased two times over the next three years. Until 1989, fertility rates remained high, being throughout the '70s and '80s among the highest in Europe.

In the same time, the demographic and family policies of the time included a series of measures designed at supporting families. Higher-order births were especially encouraged and they were sensitive

to periodic re-enforcements of pro-natality policies in 1973 and 1984 (Mureşan and Haem 2010). Despite the legal coercive measures, abortions were still used illegally by women, with high risks, as a planning method, until 1989, whereas punitive actions against them have been periodically enforced or relatively relaxed by the regime.



Source: Eurostat.

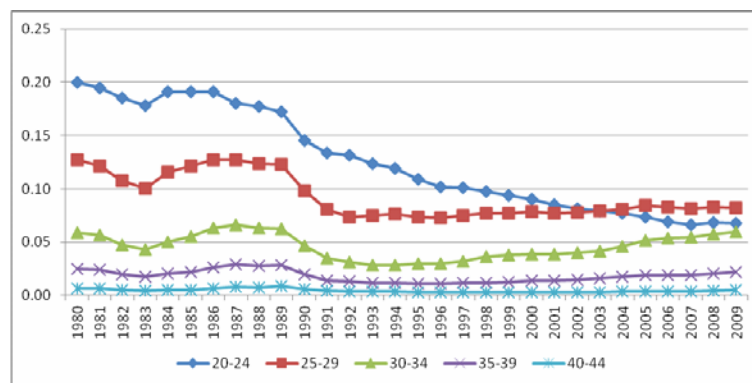
*Figure 3.10. Total fertility rate.*

The pro-natality policy made possible an important cleavage between family incomes and birth rate. Those with higher incomes managed to keep control of their family size while the size of poor families increased. Consequently, a polarization of families depending on income took place while certain social groups such as Roma communities saw their fertility increasing a lot. Moreover, it led to sizeable groups of street children and abandoned children (Birzea 2000).

With the fall of communism, a new age began in the field of fertility. Abortion was legalized in 1989 and contraceptive methods were progressively made available to couples. From this point on, fertility abruptly decreased: over a period of five years, from 1989 to 1994 (Figure 2.10), fertility rate lowered by more than one and half times reaching levels among the lowest in Europe. The family policies

implemented during transition didn't seem to make up for the economic recession. After 1990 to the present, fertility rates remained relatively stable at a very low level, with a very small increase from 2007.

In regard to age (Figure 3.11), since 1990 fertility rates seem to follow a more modern pattern. Fertility decreased significantly for women between 20 and 24 and increased steadily for women aged 30 to 34. Greater involvement in higher forms of education might have influenced this model, along with an incipient general process of modernization characterized by a change in traditional values.



Source: Eurostat.

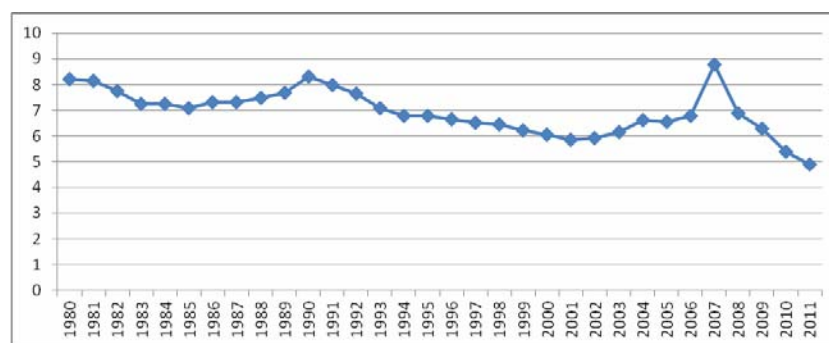
Figure 3.11. Fertility rates by age.

In regard to education, Mureşan and Haem (2010) discovered a negative educational gradient in recent Romanian fertility: more educated women have lower fertility rates than lower educated women. This was explained by the authors mainly through the preference of well educated mothers for higher educated children, who are better integrated into society and have better levels of human capital. They argued that, while for well educated mothers, raising children means diminished wages and a certain deterioration of skills, more important in their decisions might be their preference for quality

instead of quantity. Moreover, in a country where roles in the household are still very segregated, with the women performing most of the tasks in the household, including raising children, it is possible that women have difficulties in balancing their work and family life and make rational decisions towards limiting their family size.

### **Couple formation and dissolution**

The crude marriage rate<sup>28</sup> currently places Romania at an average level in the EU. Although throughout the '80s and '90s marriage rates maintained relatively high levels, after 1990 began to fall gradually, and despite a peak in 2007, marriage rates registered in 2011 a historical low.



Source: Eurostat.

Figure 3.12. Crude marriage rate.

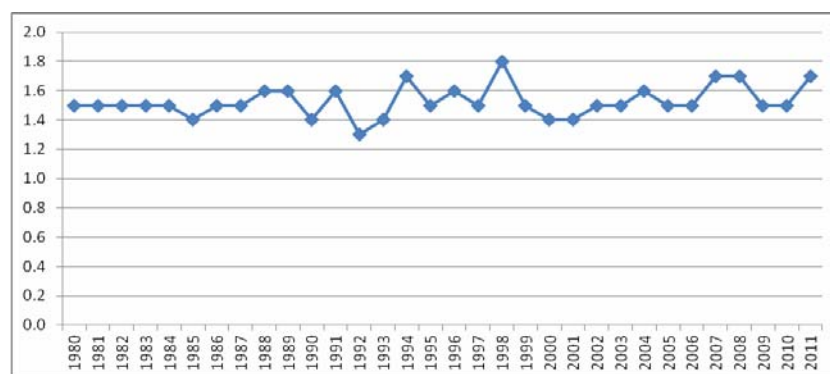
Crude divorce rates<sup>29</sup> are low in Romania, under the EU average and close to the values registered in Poland (1.7) and Bulgaria (1.4),

<sup>28</sup> The crude marriage rate is the number of marriages occurring among the population of a given geographical area during a given year, per 1,000 mid-year total population of the given geographical area during the same year.

<sup>29</sup> The crude divorce rate is the number of divorces occurring among the population of a given geographical area during a given year, per 1,000 mid-year total population of the given geographical area during the same year.



countries with the smallest divorce rates in EU. While in the first part of the 80s (Figure 3.13) divorce rates have been very stable, afterwards they started to oscillate but still remaining at low levels.



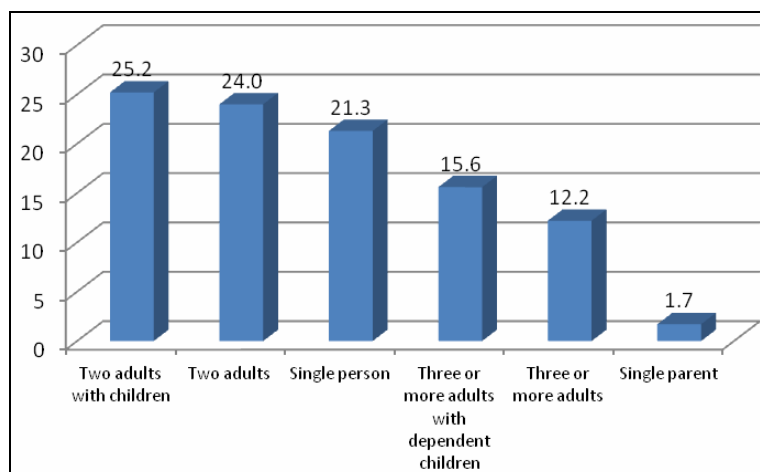
Source: Eurostat.

Figure 3.13. Crude divorce rate.

### Household composition

The average size of a household in Romania is 2.9 (EUSILC) similar to Bulgaria and Malta and close to average of the new member states (2.8).

The most widespread household type is that of couples living with children (Figure 3.14). Also important shares among household types are couples without children and single persons. Extended families, multigenerational are quite numerous and over time, in comparison to the early 90s, they grew in number (Popescu 2010). This might be explained by a combination of factors, among which economic hardships, high price of housing and traditional values might have a crucial importance. Romania has the smallest proportion of single parents in Europe after Greece (1.3%), much smaller than countries like Ireland (8.9%) or UK (5.9%) and closer to Spain (2.1%) and Poland (2.1%).



Source: Eurostat, EUSILC.

Figure 3.14. Household composition, 2010.

### **3.5. HEALTH INEQUALITIES**

Generally speaking, in Romania, the population's health is rather poor (Mărginean 2006, Pop 2010, Doboş 2003). Aggregate indicators (life expectancy, infant mortality, mortality etc) show that there is big gap that separates Romania from the developed countries in EU in regard to health state. Moreover, a series of inequalities characterize health in Romania (Mărginean 2006).

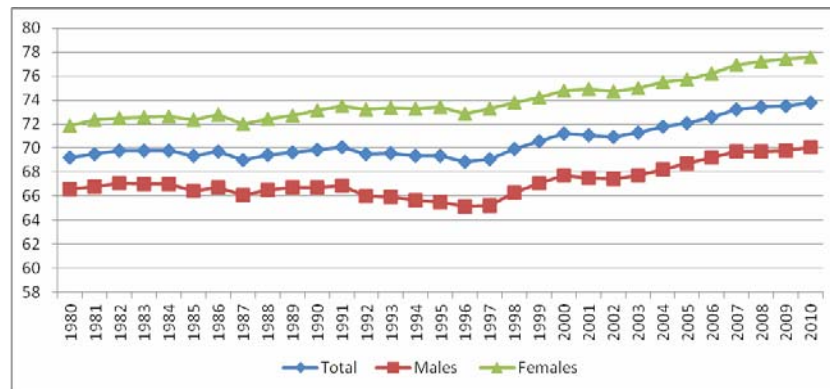
#### **Life expectancy**

In 2010 life expectancy was 73.8 years in Romania, the third lowest value in EU after Latvia (73.7) and Lithuania (73.5). When compared to western societies, Romania lags far behind countries like Sweden where people live on average 81.6 years or Ireland where life

expectancy is 81 years. Over time, life expectancy increased slightly, with a more significant rise of 2.6 years from 2000 to 2010 (Figure 3.15). The gap between women and men grew higher over time: in 1980 the difference in life years between genders was 5.3, in 2010 it grew to 7.5. The gender disparity is a universal feature and studies have shown that women, even they live longer, they also spend more days in poor health and they run higher risks of a number of chronic illnesses, whereas men are more exposed to fatal illnesses like vascular diseases (Alber and Kohler 2004, Annandale and Hunt 2000).

Beside the gender gap, in Romania there are also other inequalities which are evident in life expectancy data. Life expectancy varies by urban-rural and development region. The indicator is higher in urban in comparison to rural areas (1.7 years difference), as well as in developed regions in comparison with less developed ones (differences up to 2.1 years) (Pop 2010, NIS data).

Life expectancy is ten years shorter while infant mortality rates are 40% higher among Roma than among the general population (Cace and Vlădescu 2004).



Source: Eurostat.

Figure 3.15. Life expectancy by gender.

In a similar way to life expectancy, infant mortality rates show another important gap that separates Romania from the western countries. Romania had in 2011 an infant mortality rate of 9.4, the highest in the EU, whereas in western countries infant mortality rates are as low as 2.4 in Finland and 3.4 in Spain. The country experienced an improvement in this indicator over time as from 1990 to the present infant mortality rates decreased from 26.9 to 9.4. However, the same inequalities as for life expectancy are evident between urban and rural and development region for this indicator (Pop 2010).

Indicators describing the incidence of illnesses also depict a rather poor picture of health. Romania has the highest incidence of circulatory diseases, tuberculosis and infectious diseases in Europe, with values of tuberculosis up to ten times higher than in the developed countries.

### **Self reported health**

In regard to self reported health, Romania displays values close to the EU average: in 2010, 8.5% of the population rated their health as bad or very bad, while the EU average was 9%. Over time, a small decrease was registered in the number of those reporting poor health, from 9.6% in 2007 to 8.5% in 2010, this trend being also visible in case of EU averages (Eurostat, EUSILC data).

The importance of social gradients in health is largely accepted and demonstrated. It was maintained that health inequalities are deeply embedded in the social stratification system of every society (Mackenbach 2008). Health inequality varies by gender, age, education, income. These inequalities are omnipresent in all societies, although in Romania some of them are more pronounced (Mărginean 2006). To these disparities, some other differences need to be added, which do not come from socio-economic positions but from the general development of the country and the specific setup of the health system. Such inequalities are between rural and urban areas, between development regions or various size localities.

Table 3.4

Self rating of health status by socio-demographic variables (mean values)

	Mean total	Gender		Age		Income		Education		Residence	
		Female	Male	18-65	65+	Lowest quartile	Highest quartile	Low education	High education	Rural	Urban
2003	2.6	2.4	2.8	3.4	1.8	2.4	2.9	2.1	3.1	2.5	2.8
2007	3.5	3.7	3.4	4.2	3	3.3	4	3.1	4.3	3.5	3.6

Source: *EQLS 2003, 2007, own calculations*

Question: In general, would you say your health is excellent, very good, good, fair or poor?

Note: Means were calculated using a reversed scale from 1 to 5, where one means poor and 5 means excellent. The higher the mean the better evaluated the health status.

A study using EQLS data<sup>30</sup> (Mărginean 2006) showed that self reported poor health varies by gender, with inequalities between sexes a bit more pronounced than in the average of EU25 at the time. Age was proven to introduce another divide, as people in old age report significantly poorer health than the young, this difference being much deeper in Romania than the average of the EU25. It was explained that the problematic health situation of old persons reflects, in fact, the health state that people experience in all stages of their life cycle, resulting thus in an accumulation of difficulties in old age.

Characteristic for Romania was the difference induced by residence in self reported health: people in rural areas report poorer health in comparison to those in urban areas (Table 3.4). Even though inequalities are not especially high, the study showed that the data might reflect the different quality of health services that are available to people in the two settings. While comprehensive and sophisticated health care is mainly concentrated in urban areas, only primary care is usually available in most rural areas.

<sup>30</sup> EQLS data 2003, comparisons have been carried with the averages displayed by EU25, Romania and Bulgaria were not part of the union at the time.

The strong relationship between income and health was largely proved, this relationship being stronger especially for the poorest categories of people and the poorest countries (Alber and Kohler 2004). People in the highest income quartile report better health than those in the lowest quartile.

Education is also a powerful factor that differentiates between health states. It was explained that people with higher levels of education are able to protect themselves better against increased health risks, and/or are able to benefit more from new opportunities for health gains and, despite the universal link between education and health, this was especially evident in Eastern Europe during transition (Machenbach et al. 2006).

Between 2003 and 2007, a time of steady economic growth, self rated health improved but inequalities by gender, age, income and education generally maintained. Only in case of residence inequalities seem to have levelled out. Income inequality grew during this period of time.

### **Access to health care**

Significant inequalities were found in terms of access to health care by income and residence in Romania (Alber and Kohler 2004, Mărginean 2006). Table 3.5 illustrates inequalities in accessing health care by income and residence. Inequalities in access by income are significant in case of all four items that measure access. However, more pronounced are inequalities in case of costs of seeing a doctor, which seems to be the most difficult aspect of care for those with low incomes: only 8% of those with high incomes report very difficult access in regard to costs, while 27% of those with low incomes consider access difficult due to costs. Poor families cannot afford copayment of medical services, costs of medication as well as the costs related to transportation to health care facilities, especially secondary and tertiary. Those with high incomes can afford access to high quality services in big urban centres, private health care and

expensive medication. Inequalities by residence do not display high levels, but some differences are still significant in regard to distance to medical facilities and costs of seeing a doctor. People in rural areas find access more difficult mostly to hospitals, as also showed by Alber and Kohler (2004), whereas costs of seeing a doctor prove to be the most difficult aspect of access for those in rural in comparison to urban areas.

Table 3.5

Access to health care by income and residence (% reporting very difficult access)

	Income		Residence	
	Lowest quartile	Highest quartile	Rural	Urban
<b>Distance to doctor's office/hospital/ medical center</b>	15	6	10	6
<b>Delay in getting appointment</b>	17	4	8	9
<b>Waiting time to see doctor on day of appointment</b>	19	10	12	16
<b>Cost of seeing the doctor</b>	27	8	16	11

Source: *EQLS 2007, own calculations.*

Question: On the last occasion you needed to see a doctor or medical specialist, to what extent did each of the following factors make it difficult for you to do so?

“The low standard of living and the circumstances of health care system conducted during the past decades to a polarisation of access to health care, this having long term consequences on population's health state and contradicting the principles of social equity promoted by health legislation” (Doboş 2003, 13).

### 3.6. HOUSING TENURE

Romania has a housing model that was mainly determined by its historical communist pathway. It is characterised by a high share of home ownership, with a low proportion of homes owned with mortgage, a low share of renting and an almost insignificant fraction

of social housing. By and large, Romania shares this housing pattern with the other post-communist countries which were essentially exposed to a similar policy in their communist past.

During the communist regime, the state was the only institutional actor involved in funding and building houses. As part of the industrialization and urbanization processes, particularly in the 60s, the state built homes, especially in urban areas and mainly in the form of blocks of flats. Individuals were also able to build their own houses with some support from the state but mainly in rural areas and to a smaller extent in urban. Here, state built apartments were distributed to people mostly through their jobs and the vast majority were owned by the state.

In the early 90s, the privatisation of the public stock of housing facilities took place and apartments were sold to people at very low costs. This policy highly increased the number of home owners. However, the transfer of ownership was ambivalent: it brought about a number of advantages, but also a series of issues related to the difficulties of new owners responsibility for proper maintenance of their purchased property (Mărginean 2006). Even to today, the overall quality of this type of housing remains rather low, particularly when speaking about the basic infrastructure (heating, sewerage, water etc) and maintenance of common spaces.

Transition up to year 2000 was characterised by an abrupt decrease in the number of new dwellings built from public funds due the economic recession and lack of policy in regard to housing. Private houses were also constructed with private funds, but the overall pace of house building, in the absence of serious credit facilities, was very slow. This created important inequalities between older generations who had obtained their homes through a generous communist welfare package and the young generations who were not able to find adequate housing on the market. In the same time, renting institutions did not have any tradition and were almost insignificant. This led to inflated prices on the market for the houses built up to 1990, while the land prices also went up to a high extent, making



access to housing very difficult, especially for the young generations. A certain differentiation in this respect was between small cities, where the industry was dismantled and the housing stock was in excess of demand and the more developed big cities where the demand on the market was very high.

With the growth of the economy after 2000, credit facilities started to develop (from 2003), making possible the involvement of private actors in house building, the expansion of individual construction of homes by individuals, whereas the state also started some housing programmes for the young. In the same time, buying from the “old” housing stock was relatively easier in this period. However, on a market under the pressure of demand and with still a very low offer, the prices of the houses were very high. Until the end of 2010, a certain housing stock was available on the market as between 2006 and 2010 the number of finished dwellings almost doubled, from 39,638 to 62,520 (NIS 2010), around 90% of these finished homes being built with private funds. Nevertheless, the prices of the newly built homes largely made them prohibitive for a generally poor population.

In regards to subsidies, after 1989, after the broad withdrawal of the state from housing sector and the privatization of the housing stock, several subsidy programs have been put into place. They generally represented measures taken by various governments, without being integrated into a coherent housing policy designed for the long term. State interventions into the housing market included state support for the completion of partially completed building leftover from prior to 1989, a programme for providing a limited number of relatively low-rate housing loans through the state savings bank for people under 35 years old, the National Housing Agency Ownership Scheme which was a subsidy programme focused on building new housing and, finally, a subsidy scheme for owner-occupied housing through contract-savings banks for housing. Currently, the state guarantees the bank loans for first time owners in a programme called “First home”. In 2010, the housing expenditure in Romania was 0.02% of GDP.

### **Tenure status**

Table 3.6 presents tenure status in Romania. Homeownership is overwhelmingly widespread in this country and the highest in the EU. Similar shares of owners are to be found in Hungary, Lithuania and Bulgaria. Most of the houses are owned outright, while mortgage or loans are not significant in the total tenure status. Romania has the lowest share of owners with mortgage or loans in the EU. This can be attributed to the low opportunities in regard to bank loans which became available on the market only from around 2003 on, the high price of the housing and the limited buying power of the population. The proportion of tenants is also low as renting is not an institution yet in Romania. Moreover, many of the tenants do not pay rents at market prices, but rather reduced prices or even stay free, frequently in houses belonging to relatives, friends etc. Romania scores lowest in the EU in regard to share of tenants. Over time, no major changes occurred in housing tenure, and the status tenure is still heavily shaped by the communist heritage.

*Table 3.6*

Tenure status (%)

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Owner</b>	96.1	96.5	96.5	97.5
<b>Owner with mortgage or loan</b>	0.5	1.0	1.2	0.6
<b>Owner, no outstanding mortgage or housing loan</b>	95.6	95.5	95.3	96.9
<b>Tenant</b>	3.9	3.5	3.5	2.5
<b>Tenant rent at market price</b>	1.0	0.9	0.8	1.1
<b>Tenant, rent at reduced price or free</b>	2.9	2.6	2.7	1.4

Source: *Eurostat (EUSILC)*.

In regard to income, there are no significant differences between those below the poverty line and those that are above when looking at the share of homeowners. As explained above, homes privatised in the 90s were passed on to the population regardless of individuals'

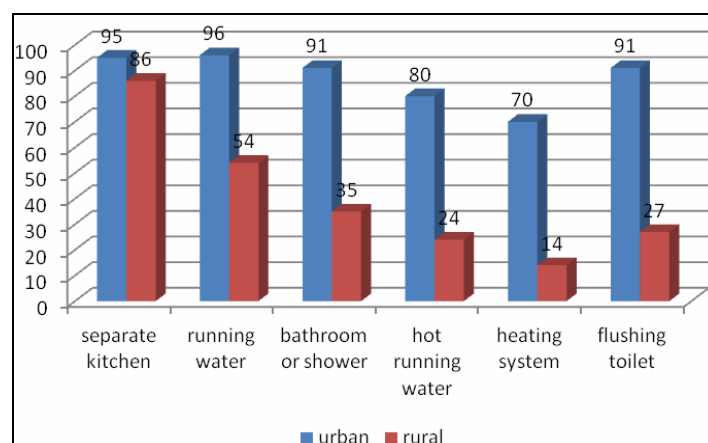
incomes. Nevertheless, a significant difference is to be observed when looking at the proportion of mortgages or loans by income. Today, the main mechanism of acquiring a home from the market would be for the majority of population through mortgages or housing loans. However, the access to credit facilities is very low or even impossible for those having an income below the 60% median equivalised income. This is to be seen in data, as among those living in poverty only 0.1 and up to 0.3% own their home with mortgage or loan while for those above the poverty line, the percentage varies from 0.7 to 1.4 during 2007 and 2010 (Eurostat, EUSILC data).

While in regard to homeownership no important inequalities are to be found, a series of inequalities characterise quality of housing in Romania. A major line of division in regard to housing is between urban and rural areas. Generally, urban areas provide a relatively modern infrastructure with good access to utilities, whereas rural areas provide people with a much lower quality of housing. Here houses are frequently built with low endurance materials and there is limited or no access to utilities. Other disparities that characterise housing conditions are between small cities and big cities, neighbourhoods with individual homes and those with blocks of apartments.

### **Standard of accommodation**

Quality of accommodation is generally low in Romania and it was demonstrated that, in Romania, similarly with Bulgaria, the quality of accommodation is the lowest in EU (Mărginean 2006).

Access to utilities is an important indicator for housing conditions as it reveals information on the basic comfort that households have, according to the standards that are generally accepted in the modern society. In Romania, access to utilities is very differentiated by urban and rural residence. Except for the indicator “separate kitchen”, all the others show significant differences between urban and rural areas (Figure 3.16). Moreover, access to utilities varies also by size of locality and its development (Voicu 2006).



Source: *Quality of life Diagnosis, 2010, Research Institute for Quality of Life.*

Figure 3.16. Access to utilities by area of residence, 2010 (%).

Housing conditions are also structured by individual characteristics as shown by Voicu (2006). Education clearly differentiates between housing conditions: most exposed to precarious housing are those with a low level of education. Ethnicity also introduces differences in housing conditions: roma households have poor quality of accommodation and “are excluded from modern housing as they have inferior conditions by all indicators” (Voicu 2006, 83). Other studies have shown that quality of accommodation is also clearly structured by the level of income (Mărginean 2006).

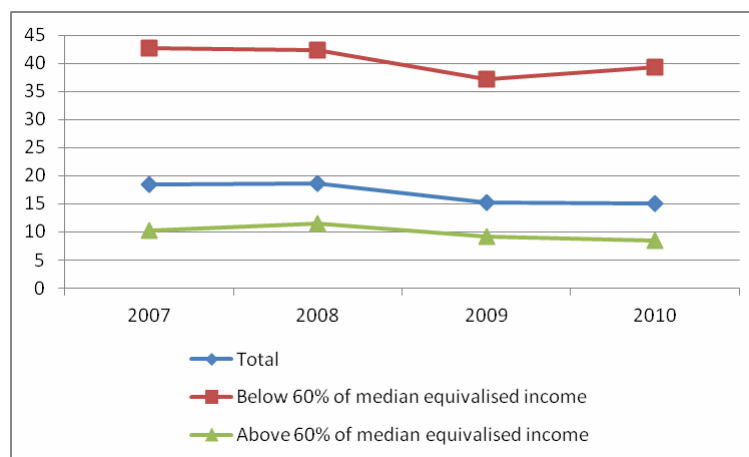
### Housing costs

Figure 3.17 illustrates the housing cost overburden rate<sup>31</sup> by income threshold in Romania. In 2010, 15% of the Romanian population lived

<sup>31</sup> The housing cost overburden rate is the percentage of the population living in households where the total housing costs (“net” of housing allowances) represents more than 40% of disposable income (“net” of housing allowances).

in households that spent 40% or more of their equivalised disposable income on housing. Romania has one the highest housing cost overburden rates in EU, close to Denmark (21.9%), Greece (18.1%) and UK (16.5%). In the country under scrutiny here, the high housing costs come mainly from the costs for services (water, electricity, gas or other fuels, heating etc.).

Incomes (Figure 3.17) clearly structure these cost rates, as households below 60% of median income display a much higher rate than those that are above.



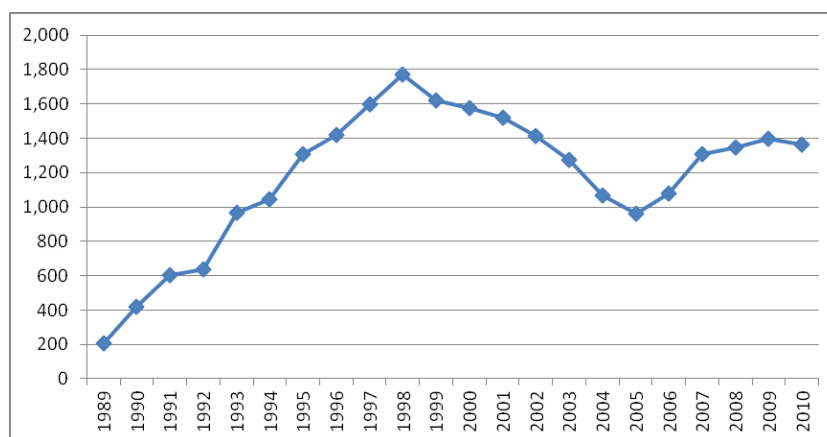
Source: Eurostat (EUSILC).

Figure 3.17. Housing cost overburden rate by income threshold (%).

### 3.7. CRIME AND PUNISHMENT

Crime rates grew between 1990 and 1998 in Romania more than four times (Figure 3.18). A general weakening of social control during the first decade of transition, as well as the economic recession with its social consequences can generally account for this upsurge of more than 4 times in criminality rates. Another important increase, although

of a much smaller magnitude was recorded between 2005 and 2009, when the rise was 1.4 times.



Source: *Transmonee 1989-2009, NIS 2010.*

*Figure 3.18.* Registered total crime rate (per 100,000 population).

*Table 3.7*

Recorded crimes by type (absolute numbers)

	Homicide	Violent crime	Robbery	Domestic burglary	Motor vehicle theft	Drug trafficking
<b>1993</b>	722	9,515	4,647	15,411	2,078	:
<b>1994</b>	749	8,930	4,161	17,842	2,362	:
<b>1995</b>	758	9,212	4,154	31,163	2,687	368
<b>1996</b>	722	8,720	3,866	29,024	1,800	597
<b>1997</b>	693	8,966	4,010	31,311	2,110	803
<b>1998</b>	559	7,846	3,548	29,404	2,284	620
<b>1999</b>	566	7,840	3,336	21,287	2,331	653
<b>2000</b>	581	7,703	3,280	19,024	2,149	561
<b>2001</b>	597	7,943	3,467	17,551	1,952	658
<b>2002</b>	563	7,130	3,025	12,001	1,297	1,074
<b>2003</b>	551	6,281	2,782	10,063	1,127	1,131

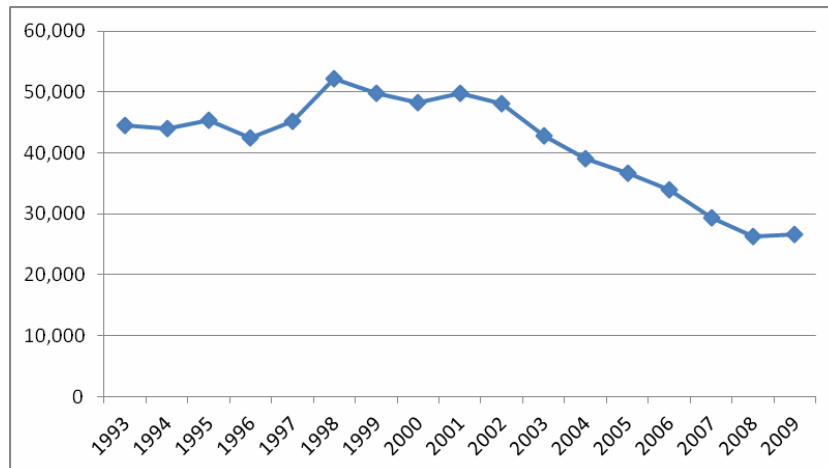
Table 3.7 (continuation)

<b>2004</b>	516	6,388	3,087	10,002	1,120	1,775
<b>2005</b>	453	6,469	3,326	9,135	1,082	2,441
<b>2006</b>	438	7,240	4,078	9,165	1,266	3,079
<b>2007</b>	416	7,044	2,496	10,829	1,817	2,796
<b>2008</b>	493	6,842	2,464	10,285	2,355	3,621
<b>2009</b>	421	6,781	2,541	11,574	2,967	3,228

Source: Eurostat.

The trends in homicide and total violent crime are descending in time. Robbery and domestic burglary and motor vehicle theft display rather sinuous trends but overall, they are also descending. A longer lasting rising trend is in drug trafficking which grew between 1995 and 2009 almost 9 times.

Prison population registered a peak in 1998 and decreased steadily until 2009 (Figure 3.19). In the first years of transition, prison population increased from 29,000 in 1989 to 44,000 in 1992 (Roth 2006).



Source: Eurostat.

Figure 3.19. Prison population (absolute numbers).

Among the explanations for the rising prison population given by the quoted author are the rise in crime that accompanied the transition to a market economy, increasing the length of confinement for maximum sentences and the lack of noncustodial alternatives. From 1994 to 1997, as the crime rate increased significantly, due to the limited range of sentences and to the sentence patterns, the custodial rate was one of the highest in Europe with the immediate consequence of an overcrowded prison system (Durnescu 2008). As a result, starting with 2002, Romania implemented the organisation and functioning of the services for social reintegration and supervision of offenders (probation services) which might have had an effect on the prison population.

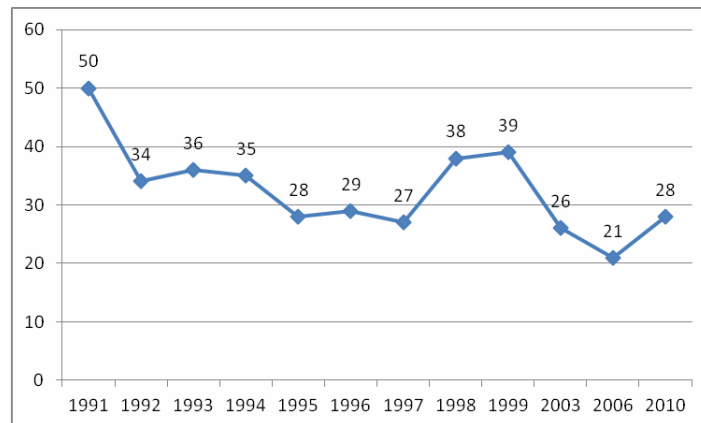
### **Feelings of insecurity**

The proportion of people fearing lack of personal security due to criminality was 28% in 2010. During transition, the percentage of population feeling unsafe varied between a maximum of 50% in 1991 and a low of 21% in 2006. The high numbers of people having criminality fears in 1991 can be explained partly through the rise in criminality rates after 1990 but mostly through a general feeling of insecurity that people experienced in the first years of transition when, after a lifetime of stability and security, they were exposed for the first time to a large array of risks, threatening both their well being and personal safety.

When looking at feelings of insecurity that people have in their neighbourhood, studies have shown that they vary by gender, age and residence (Mărginean and Precupețu 2010). Women tend to feel more insecure in comparison to men, as well as people in old age in comparison to those who are young. Also, those living in urban areas have higher feelings of insecurity when compared to those living in rural areas. It was explained that not only are criminality rates higher in urban areas, but people feel more insecure there due to certain characteristics of the Romanian urban setting. Usually in urban areas



and especially in big cities, people live in communities where housing is mainly blocks of flats (majority from communist times), in which people, despite living very close to each other, they are socially very differentiated. Consequently, social capital is low, with insignificant relationships, cooperation and trust. In fact, a common paradox of urban living was amplified by the specific circumstances of post communist societies where people tend to live more in the private sphere and less in the larger society (Mărginean 2006).



Source: *Quality of Life Diagnosis*, Research Institute for Quality of Life.

Question: During next period of time, do you worry about each of the following for you and your family? Lack of personal security due to crime. 1 a lot, 2 a little, 3 not at all. Percentage of population declaring they worry a lot.

Figure 3.20. Perceptions of insecurity due to crime (%).

### 3.8. SUBJECTIVE MEASURES OF WELL-BEING

Subjective well-being refers to the subjective manner in which people experience their lives and includes a cognitive dimension (life satisfaction and satisfaction with various domains), and an affective

one involving both pleasant affects (happiness) and unpleasant affects (depression, anxiety, or alienation) (Diener and Suh 1997, Bohnke 2005). Following, we will describe subjective well being in Romania, based on national as well as international data, trying to cover the period after 1990 to the present.

### **Life satisfaction**

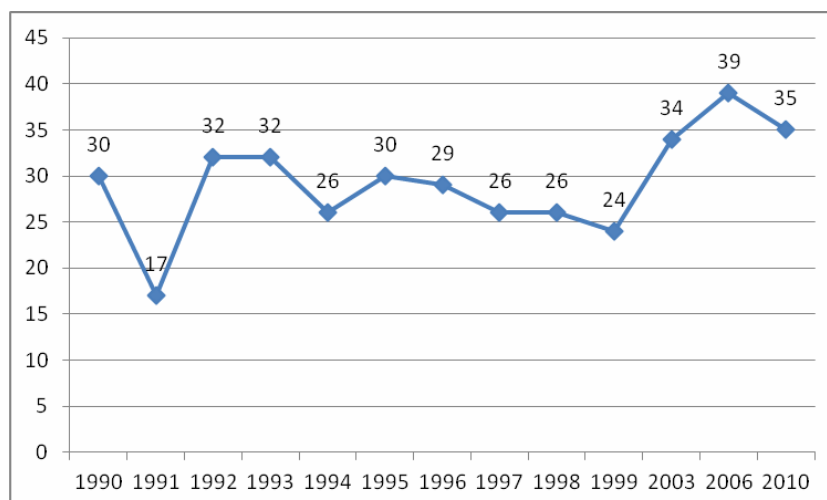
Low levels of life satisfaction are generally recorded in Romania. According to Eurobarometer<sup>32</sup> data in 2011, Romania ranked the second lowest in Europe in regard to life satisfaction, after Bulgaria. Only 40% of the population declared themselves either very satisfied or fairly satisfied with life, in comparison to the high levels of satisfaction that are present in developed countries like the Netherlands and Finland (both 96%) or UK (92%). Romania ranks close to Bulgaria (37%), traditionally the most dissatisfied country in the EU, and Greece (46%) also ranking constantly low in satisfaction.

Life satisfaction is a subjective evaluation of a person's life that has the capacity to indicate the degree to which people's needs are met (Delhey 2004). The low levels of life satisfaction in Romania indicate that basic needs are satisfied in Romania only for a small proportion of population. Life satisfaction depends also on structural circumstances and opportunities that are provided to people in their societies in order for them to fulfil their goals and live according to their values and aspirations. There is an important amount of research evidence proving the relationship between material living conditions and subjective well-being, both at macro and micro levels (Delhey 2004, Bohnke 2008). Generally, wealthy countries, characterised by political stability, important systems of social protection, high quality education and health systems provide their citizens with good conditions and opportunities for living a good life and are usually rich in subjective well being, while poor countries are deprived in satisfaction. Moreover, it

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<sup>32</sup> Standard Eurobarometer 2011, spring wave.

was shown that (Delhey 2004) social inequalities in life satisfaction by social position, income or educational level are more marked in the new member states in the EU in comparison to older members of the EU. To these, it adds a particularly strong generation gap in the post-communist countries, where older people are usually less satisfied than the younger age groups.



Source: *Quality of life diagnosis, 1990–1999, 2003, 2006, 2010, Research Institute for Quality of Life.*

Question: Taking all things into consideration, how satisfied would you say you are with your life? 1. Very satisfied, 2. Satisfied, 3. Nor satisfied, not dissatisfied, 4. Dissatisfied, 5. Very dissatisfied.

Figure 3.21. Life satisfaction (% very satisfied and satisfied).

National level data shows significant variations over time in life satisfaction (Figure 3.21). The lowest level was registered in 1991 when the economy experienced the most dramatic contraction during transition, as GDP fell by 12.1% in comparison to the preceding year. Life satisfaction also fell significantly in relation to 1990. In 1990, in the very beginning of transition, some reparatory measures were taken

aimed at increasing the very low standard of living imposed during communism. However, the second year of transition with its abrupt economic contraction was the turning point in which it became evident that the social costs of transformation born by the population would be very high. This explains the very low satisfaction registered in 1991.

In the following years, life satisfaction extended to about one third of the population. At macro level, the process of economic decline continued and brought about further deterioration in living conditions. Moreover, the newly built social protection system was not broad enough and did not create safety nets for the people affected by the new social realities, among which economic restructuring and increasing unemployment made a powerful mark on peoples' lives. However, a certain adaptation process (Headey and Wearing 1992) is visible in life satisfaction data and the period 1992–1996 can be considered as one of “survival and adaptation” (Precupețu 2010) as people began to learn how to shape their lives and adjust to the grim social realities of early 90s.

The following years saw a steadily decrease in levels of satisfaction until a new low in 1999, associated with more economic decline, political instability and culminating with the social conflicts of 1999.

The period after 2000 was characterised by a ten years economic recovery and, for the first time during transition this had visible consequences in living conditions and was accompanied by a significant increase in levels of life satisfaction. However, the economic growth abruptly ended in 2010 and in 2011 a significant decrease in life satisfaction was revealed by Eurobarometer data<sup>33</sup> (2011, spring wave), life satisfaction decreased from 46% in 2010 to 40% in 2011.

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<sup>33</sup> Eurobarometer uses a different scale for life satisfaction (4 point scale) than Quality of life diagnosis (5 point scale).

### Satisfaction with life domains

Specific satisfaction with life domains (Table 3.8) provides information on objective conditions in the various fields of life and allows us to ascertain the more positive or negative realms in quality of life.

Table 3.8

Satisfaction with life domains, means

	2003	2007	2009	2010
<b>Satisfaction with job</b>	7.4	7.1	6.9	6.5
<b>Satisfaction with standard of living</b>	6.1	6.4	5.9	5.4
<b>Satisfaction with family life</b>	8.1	7.8	7.5	7.1
<b>Satisfaction with health</b>	7.3	7.2	7	6.9

Source: *EQLS 2003, 2007, Special EB 321, 355.*

Question 41: Could you please tell me on a scale of one to 10 how satisfied you are with each of the following items, where one means you are very dissatisfied and 10 means you are very satisfied? a. your education; b. your present job; c. your present standard of living; d. your accommodation; e. your family life; f. your health; g. your social life.

Previous research (Mărginean and Precupețu 2010) showed that satisfaction with life domains describes certain patterns that are consistent across various data sources. In Romania, satisfaction with standard of living is constantly the lowest among satisfaction with life domains, proving that this is the most problematic aspect of people's lives. Satisfaction with standard of living decreased over time, the most significant decline being in 2010.

At the other end of the scale, satisfaction with family shows constantly highest levels among life domains. This was explained in the literature (Mărginean 2004b, Böhnke 2005, Saraceno and Olaghero 2004) by showing that family acted in post communist countries as a buffer against the difficulties of transition and helped people coping with the many issues of the period. It provided various types of

support to people during the strenuous years of transition, when safety nets were not available in society. Currently, it still remains the most satisfying life domains and the central value in people's lives. Even though family stays the most powerful source of satisfaction in people's lives, satisfaction with family life also decreased slightly in time.

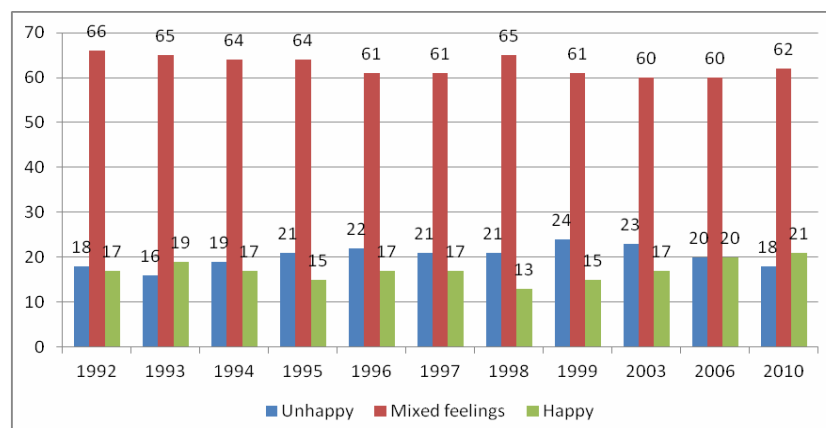
Satisfaction with job and satisfaction with health follow the same pattern and decreased during the period described by data.

### **Happiness**

Happiness, defined as “how much one likes the life one lives, or the degree to which one evaluates one's life-as-a-whole positively” (Veenhoven 2006), is able to capture the positive feelings that people experience in their lives and is closer to the private sphere in comparison to life satisfaction, which is more sensitive to the social context (Precupețu 2010). Continuous data series are not available for happiness. However, the available data from EQLS can reveal the levels in these indicators and the rank that Romania has in regard to happiness in the EU.

According to EQLS data, in Romania happiness registered a mean value of 7 in 2003 and 7.1 in 2007 on a scale from 1 to 10, where 1 means very unhappy and 10 very happy. This ranked Romania in 2007 among countries like Portugal (6.9), Italy (7) and Greece (7.3) and lower than the happiest countries in EU like Sweden (8.3) and Denmark (8.5).

National data can reveal general trends in happiness over time (Figure 3.22). The happiness indicator displays great stability over time and the proportion of those declaring themselves happy is very low. However, the lowest proportion of happy people was registered in 1998-1999, maybe the most difficult years of transition, while the highest proportion of happy people was registered in 2010, the year in which many positive effects of economic growth accumulated, while the crisis was not yet completely felt in the private sphere of the individual.



Source: *Quality of life diagnosis, 1992-1999, 2003, 2006, 2010, Research Institute for Quality of Life.*

Question: In people's life there are better times and worse times. How would you describe your feelings during the last days: 1. I was unhappy, even desperate, 2. I had pretty big worries, 3. I've got the feeling that something is not right (working), 4. I generally feel fine, although I do have some problems, 5. I feel fine, no problems, 6. I am completely happy.

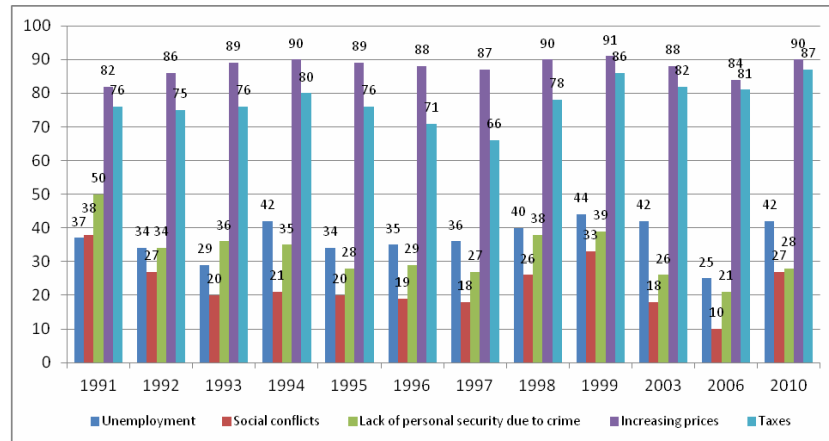
Figure 3.22. Happiness/unhappiness (%).

### Negative feelings

Negative feelings refer to unpleasant moods and emotions, like stress, worries, various concerns that people might have and they complete the picture of subjective well being, adding to the positive feelings of satisfaction and happiness. National data reveal the most important concerns that people have (Figure 3.23).

The major concerns that dominated peoples' well being were those directly affecting their standard of living: increasing prices and taxes. An overwhelming majority of the population constantly declared they fear a lot both increasing prices and taxes, these indicators displaying a remarkable steadiness over time.

### Inequality in Romania: Dimensions and Trends



Source: *Quality of life diagnosis, 1992–1999, 2003, 2006, 2010, Research Institute for Quality of Life.*

Question: During next period of time, do you worry about each of the following for you and your family? Unemployment, social conflicts, lack of personal security due to crime, increasing prices, taxes. 1 a lot, 2 a little, 3 not at all. Note: Percentage of population declaring they fear a lot.

Figure 3.23. Worries (%).

Instability in consumer prices heavily and constantly influenced subjective well being over time as this can have a major impact on the most problematic aspect of quality of life in Romania, standard of living. Fear of social conflicts varied, as expected, according to the presence of social conflicts in society, maintaining higher levels in early 90s and again in 1998–1999. After a calm and stable period during 2000, the fears of social conflicts got a bit higher in 2010 along with other fears which increased as a result of the incoming crisis at the time.

The fear of unemployment is less important in comparison to the other worries that people have. However, the trends in this subjective indicator reflect the objective situation, as years like 1994 and 1999 when unemployment rate was highest in Romania (10.9%, and 11.8%, respectively) also show high levels of fears in regard to unemployment.



### **3.9. INTERGENERATIONAL MOBILITY**

#### **Educational mobility**

The communist regime gave rise to an important expansion of education, increased availability of higher qualifications and better educational opportunities. The structural changes in the education system, especially in the first two decades, conducted to an increasing upward educational and occupational mobility (Mărginean 2004).

Access to education widened in the first two decades of the communist regime to a great extent for primary levels and up to 8<sup>th</sup> grade levels. Moreover, the extension of mandatory school years to 10 in 1980s created opportunities for all social classes to be represented in the upper secondary levels of education and increased chances for those coming from low educational backgrounds to access higher education (Larionescu et al. 2006). However, this mobility was limited, with sons going upward only one educational level in comparison to their fathers (Cârțână 2000). This was interpreted as a phenomenon of selection (Larionescu et al. 2006) in which inequality in access only transferred to higher levels of education, without levelling out.

Secondary education has been through a great expansion with consequences for upward social mobility. While during the first part of the regime, the social value of the high school diploma was very high, mostly guaranteeing upward mobility, in the second part (starting with the 80s), along with the economic recession, high school certificates did not anymore assure a good social position, but were rather a mechanism for maintaining the parents' position in the social structure. By and large, upward mobility decreased and socio-economic positions started to become increasingly dependent on social origin. One study showed that for the last period of communism, up to the end of the first decade of transition (1988-2000), the relationship between the socioeconomic status of father and that of the sons became considerably stronger (Tomescu-Dubrow 2006).

An important mechanism for upward mobility during communism was higher education. However, access to this form of education was

restricted through a tough control (particularly starting with the 80s) of the number, type and profile of higher education institutions and through a rigorous selection of students (Larionescu et al. 2006).

Educational mobility consisted in the first part of the communist regime of a high level structural mobility, while in the second part of the regime (starting with the mid '70s) largely social reproduction dominated mobility processes. However, as a general pattern, during the communist regime in Romania upward mobility was by and large based on education.

During transition, the situation changed severely in regard to education. While the general structure of education remained for a considerable period largely the same, higher education went through the most important changes. Higher education institutionally increased, while access to higher education also grew to a high extent.

Upward mobility became increasingly dependent on social origin. "The effect of the diminishing of inequality in access to education that was achieved during communism was cancelled by the increase in social inequality, to the extent that the chances of an individual with a modest social origin to accede to an intermediary or high social position are very low" (Larionescu et al. 2006, 217).

The relationship between educational qualifications and class destinations continued to remain clear during transition.

*Table 3.9*

Percentage sons achieving their father's occupation

	<b>Farmer</b>	<b>Manual worker</b>	<b>Clerical</b>	<b>Professional and management</b>
<b>1993</b>	20	36	23	40
<b>1996</b>	33	34	24	41
<b>1999</b>	52	31	24	32
<b>2003</b>	45	31	9	33
<b>2006</b>	48	30	13	43
<b>2010</b>	46	30	7	51

Source: *Quality of life diagnosis, Research Institute for Quality of Life.*

The relationship between father and sons occupations is most clear for professional and management class and for farmers, especially towards the end of transition. The increase in the number of farmers having the same origin can be explained by the economic restructuring processes that lead to the lowering of manual occupations and the returning to farmer occupations of many workers (usually vocational or high school graduates). For manual workers data show a significant stability in the level of immobility.

## **CONCLUSIONS**

Even though it is pretty difficult to assess the impacts that inequality has had in the social realm, as this relationship cannot be tested directly in this paper, we can still observe the various disparities that characterize Romania in a range of social dimensions. However, while social dimensions generally describe a poor situation in Romania, they did not worsen during the time described by the data as income inequality rose. It is clear though that inequalities are accompanied by social features which are long lasting: “low social trust, corruption, decline of state authority are here to stay and most probably will not disappear during the life time of current generations” (Zamfir et al. 2010, 11).

Romania has the second highest deprivation rate in the EU, after Bulgaria: around half of the population lacks at least three of the items that are customary in a modern society and that people would like to possess but cannot afford them. Couples with three or more dependent children, single persons and single persons with dependent children are most exposed to severe material deprivation. Couples with three or more dependent children seem the most vulnerable and, even though severe deprivation rates generally decreased over time from 2007 to 2010, for this category, the rates increased. Even the most affluent households (fifth quintile) face high deprivation levels and they barely situate themselves at the level of the total material deprivation rates of

the developed countries in the EU. As expected, the poorest households (first quintile) face extremely high deprivation levels, reaching 60% in 2010. Also, in 2010, Romania had the third highest proportion in the EU of population in arrears of payment: 29.8%.

Social cohesion and social capital are closely connected as the social capital of a certain society is underpinning all efforts aiming at the reduction of inequality and thus is furthering more equal societies through solidarity among their members.

In Romania, social relationships have been shaped by the communist heritage characterised by high distrust in others outside primary groups, in social institutions and by the subsequent social isolation. Generalised trust placed Romania in the 2008 EVS study<sup>34</sup> among other countries in the EU with low trust in people: Bulgaria (18%), Hungary (21%) and Portugal (20%). The frequency of social contacts is also low with a significant increase only in the recent past (from 2003 to 2010), which was a little bit more prosperous economically. Membership in associations is also low in Romania, as shown by Voicu (2010), only 8% of Romanians were part of at least one association, this being the lowest proportion of participation in Europe<sup>35</sup>. This can be explained by a series of factors, among which poor structural opportunities for participation, weak tradition of non-governmental organizations in Romania as well as poor individual resources.

Romania is characterised by low fertility, a marriage rate at the average level of EU and low divorce rates. Family has been throughout the transition the main safety net for most of the people. Multigenerational households, help within the extended family and strong kinship networks acted as buffers against the hardships of transformation.

In Romania, population health is rather poor and aggregate indicators (life expectancy, infant mortality, mortality etc) show that

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<sup>34</sup> Source: EVS 2008, GESIS.

<sup>35</sup> EVS/WVS 1999–2002.

there is big gap that separates Romania from the developed countries in the EU in regard to health status. Furthermore, a series of inequalities characterize health in Romania.

In 2010 life expectancy was 73.8 years in Romania, the third lowest value in the EU. Life expectancy is higher in urban in comparison to rural (1.7 years difference), as well as in developed regions in comparison with less developed ones (differences up to 2.1 years). Life expectancy is ten years shorter while infant mortality rates are 40% higher among Roma than among the general population.

Disparities in self reported health and in access to health services come from socio-economic positions as well as from the general development of the country and the specific setup of the health system (between rural and urban, between development regions or various size localities). Access to health care is significantly stratified by income and inequalities in access are pronounced in case of costs of seeing a doctor, which seems the most difficult aspect of care for those with low incomes. People in rural areas find access more difficult, mostly to hospitals, whereas costs of seeing a doctor prove to be the most difficult aspect of access for those in rural in comparison to urban areas.

In regard to housing, tenure status is heavily influenced by the communist heritage and the privatisation of the housing stock in early '90s. Homeownership is overwhelmingly widespread in this country and the highest in the EU. Most of the houses are owned outright, while mortgages or loans are not significant in the total tenure status. Romania has the lowest share of owners with mortgage or loans in the EU. This can be attributed to the low opportunities in regard to bank loans which became available on the market only from around 2003 on, the high price of the housing and the limited buying power of the population. The proportion of tenants is also low as renting is not an institution yet in Romania. Moreover, many of the tenants do not pay rents at market prices, but rather reduced prices or even stay free, frequently in houses belonging to relatives, friends etc. Romania scores lowest in the EU in regard to share of tenants.

Inequalities appeared between older generations, who benefited from a generous communist welfare package, and younger generations, who saw their access to housing severely limited. Also, a series of inequalities characterise quality of housing in Romania. A major line of division in regard to housing is between urban and rural areas. Other disparities that characterise housing conditions are between small cities and big cities, neighbourhoods with individual homes and those with blocks of apartments. Housing conditions are also structured by individual characteristics: most exposed to precarious housing are those with a low level of education, those with a low level of income and Roma households.

Life satisfaction generally displays low levels in Romania, revealing at the individual level, that people's needs are not fully satisfied, and, at macro level, the low quality of structural circumstances and opportunities that are provided to people in order for them to fulfil their goals and live according to their values and aspirations. Satisfaction with standard of living is constantly the lowest among satisfaction with life domains, proving that this is the most problematic aspect of people's lives. At the other end of the scale, satisfaction with family constantly shows the highest levels among life domains. The major concerns that dominated peoples' well being during transition were those directly affecting their standard of living: increasing prices and taxes.

Educational mobility consisted in the first part of the communist regime of a high level structural mobility, while in the second part of the regime (starting with the mid '70s) largely social reproduction dominated mobility processes. However, as a general pattern, during the communist regime in Romania upward mobility was by and large based on education. During transition, upward mobility became increasingly dependent on social origin.

## **CHAPTER 4**

### **POLITICAL AND CULTURAL DIMENSIONS OF INEQUALITY**

Democracy is a type of political organisation that allows citizens to express their preferences for contending political parties and candidates in regular, free and fair elections and to freely express their approval or discontent with the decisions and actions of those in power. One of the most important features of a developed democratic system is that it offers the citizens opportunities for a significant input into the political processes. A functional democracy is also congruent with the prevalence among people of a civic, participatory political culture.

Institutional performance of a democratic regime depends not only on the institutional design, not only on the manner in which democratic institutions are set, but depends also on the features of the social environment in which these institutions function, as demonstrated by numerous studies (Paxton 2002, Bernhard, Nordstrom and Reenock 2001, Chambers and Kopstein 2001). Some authors (Huber et al. 1997, 324) point out to the more developed forms of democracy that go beyond the procedural (or formal democracy) to participative or even social type of a democratic regime. A participative democracy consists not only of free and fair elections, universal suffrage, government accountability, freedom of speech and association, free press, guaranteeing of human rights (all considered essential conditions to be satisfied for a political regime to be called a democratic one), but is also defined by the existence of high levels of citizens' participation to political process, without significant differences among social categories (on the grounds of ethnical origin, gender, or social class).

As an essential component of a democratic regime, the participation of Romanian citizenry to civic and political affairs, people's behaviour, values, attitudes and evaluations in relation to politics and social life will be the focus of current analysis.

#### **4.1. POLITICAL AND CIVIC PARTICIPATION**

##### **Participation in elections**

Citizens' participation in elections has registered relatively high levels in the early '90s – the first years of restored democracy in Romania after the fall of the communist regime (Table 4.1).

The first free parliamentary and presidential elections held in the year 1990 witnessed an 86% participation of the electorate – the highest level in over two decades of post communist democratic regime. Since then, the voters' turnout in general elections has decreased to a minimum of 39% attendance in the last parliamentary elections of 2008 and to a low of 54% for the last presidential elections (that of the year 2009), respectively. The separation of parliamentary elections from the presidential ones after 2004 (when the mandate of the president was extended to 5 years – as compared to a 4 years mandate for the legislative body) could be accountable for intensifying the trend of declining participation in parliamentary elections down to a level well under 50% of the total electorate (39% in 2008). Up to now, the rate of participation in presidential elections, although on a decreasing path over time, did not go lower than 50% of the total electorate.

As for the local elections, the trend of diminishing participation has characterized the period 1992–2000 (1992: 65% participation rate in first post communist local elections; 2000: 51% voters from total electorate) and was interrupted by the 2004 elections, that saw a 3% increase from the previous ones. Described by ups and downs in the last 12 years, the voter turnout in local elections has maintained overall an over 50% level of citizens' presence in the voting booths, with



a low of 51% participation in the local elections of the years 2000 and 2008 and higher levels in 2004 (54%) and 2012 (56%). Although between 1992 and 2004 the turnout in local elections has registered lower levels as compared to general elections, in 2008, for the first time, local elections have attracted a bigger share of voters than the parliamentary elections that took place later in the same year. In the most recent local elections, the share of people's participation has increased by 5% from the preceding one (from 51% in 2008 to 56% in 2012).

The more recent opportunity to elect representatives in the European Parliament proved less attractive to the Romanian electorate; the only two EP elections that took place up to the present registered low shares of participation as compared to national and local elections (29% in 2007, 28% in 2009 respectively).

*Table 4.1*

Turnout in elections (%)

	<b>Parliamentary Elections</b>	<b>Presidential Elections</b>	<b>Local Elections</b>	<b>EP Elections</b>
<b>1990</b>	86	86		
<b>1992</b>	76	76	65	
<b>1996</b>	76	76	56	
<b>2000</b>	65	65	51	
<b>2004</b>	58	58	54	
<b>2007</b>				29
<b>2008</b>	39		51	
<b>2009</b>		54		28
<b>2012</b>	42		56	

Source: *Permanent Electoral Authority of Romania*, own calculations.

### **Affiliation to trade unions**

During the communist regime, in the industrial sector, every employee was compulsorily a trade union member and the trade union density was 80%–90%. Currently, there is no official record of the number of workers affiliated to trade unions. The only estimations

come from trade union confederations and their leaders' statements claiming a density at national level of 50% – 60%, and higher figures of 75% – 80% in the public sector (Eironline 2009).

The law regarding the creation of trade unions was enacted in 1991. In communist times, there was one major trade union structure – the General Trade Union Confederation of Romania (Uniunea Generală a Sindicatelor din România, UGSR) with around 7.5 million members.

In 1989 the union structure had a considerable wealth consisting in immovable property plus an estimated 300 million US dollars in accounts. The structure divided over the first four years of transition, into five new trade union confederations.

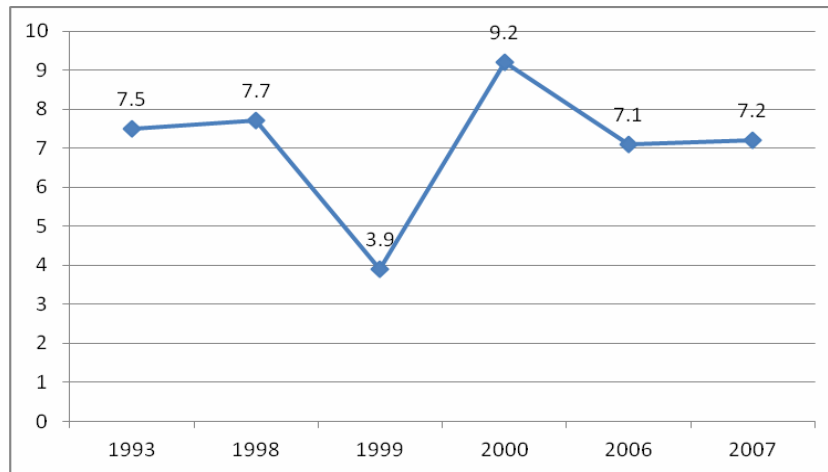
Over time, the five confederations have been in a sort of competition with each other over the right to partake in the substantial assets that the former centralised trade union structure owned during the communist regime (Eironline 2009).

The leadership of the confederations largely remained the same since their setup. While some of the prominent leaders went openly into politics, some others have been many times accused of corruption, of taking part in the process of privatisation on the employers' side and of becoming inexplicably rich.

### **Membership in civic organizations**

Participation in civic organizations is low in Romania. Bădescu (2007) asserted that the involvement of Romanian citizens in civic associations remained at almost the same level (6% – 8%) over the period of 15 years analysed (1993–2007).

Another study (Voicu 2010) estimated the dimension of participation to associative life in Romania to be under 13% – 15% of total population, placing Romania among the European countries with very low levels of civic involvement (see also section on social dimensions of inequality).



Source: Bădescu 2007, based on WVS (1993) and BOP data.

Figure 4.1. Self-declared members in civic organizations (%).

## 4.2. TRUST IN OTHERS AND IN INSTITUTIONS

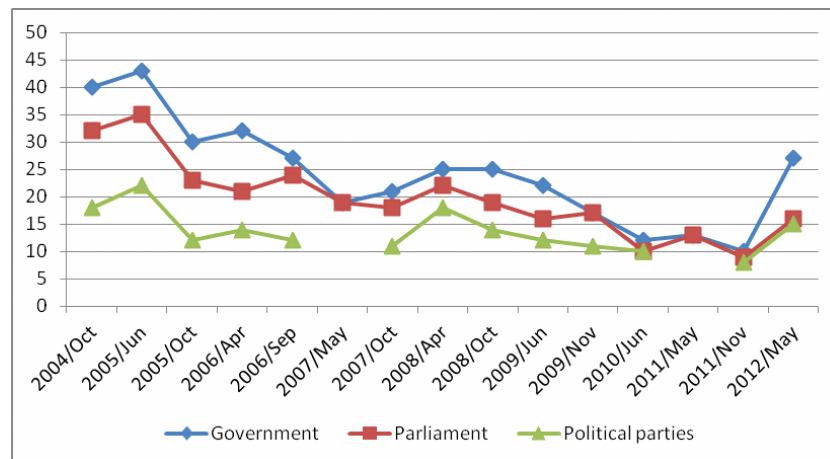
### Trust in institutions

Together with networks of civic participation and inter-personal relations based on reciprocity norms, trust in others and in institutions is a key ingredient of social capital (according to Putnam 1993) – a concept that captures definitory traits of the social environment in which institutions function. High levels of trust in a society are conducive to the increasing of people's availability to engage in associative life, to cooperate with others for the creation of public or private goods. Furthermore, a social environment with a high density of associative life and an important stock of trust has a positive effect on government performance (as asserted by Boix and Posner 1998).

From the three political institutions analysed here, the most trusted, in general, in the last 8 years, is that of Government (having

an average trust of 24%), followed closely by the National Parliament (with an average trust of 20%) and political parties (14% average trust). We have to notice, though, the rather low level of trust; in Romania, we can actually speak of a prevalence of distrust displayed by people in relation to political institutions. In the last 8 years, the level of trust ranged between 10% and 43% in the case of Government, 9%–35% for Parliament and 8%–22% for political parties (as shown in Figure 4.2).

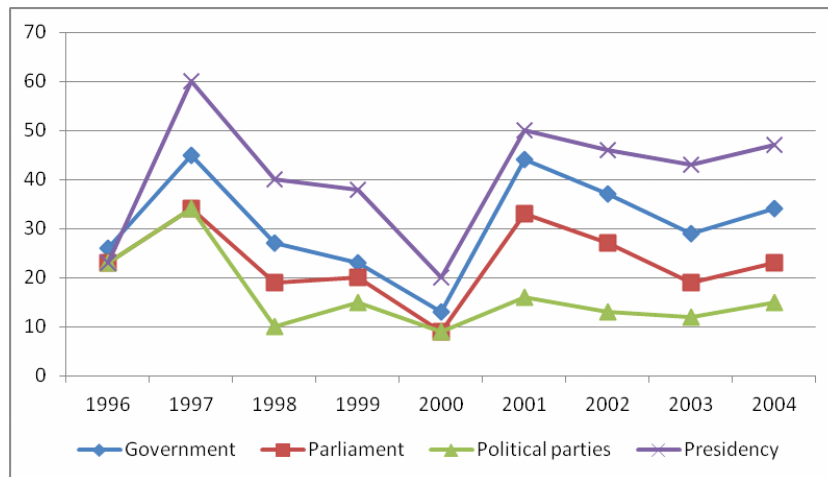
The lowest point of trust for Romanian political institutions (10% for Government, 9% for Parliament and 8% for political parties) was November 2011, a time marked by the effects of the global economic crisis, prolonged social protests and political instability that eventually, in the spring of the next year, led to a change in power due to the centre-right government losing support in Parliament in favour of a centre-left coalition. Probably related to this, the more recent data (from the spring of 2012) indicate an increase in trust granted by people to political institutions.



Source: Eurobarometers.

Figure 4.2. Trust in political institutions (2004–2012) (%).

In general, less than 50% expressed trust in political institutions between 1996 and 2004 (Figure 4.3). The points of departure (1996 and 2000) of the two electoral cycles analysed here are low in terms of trust granted to institutions. The general model is that of increasing in the first phase of the level of trust as a result of initial measures employed by governments, prior expectations and hopes that people employ in relation to this new governments. As time passes, though, trust erodes depending on government performance and a settlement of people's expectations towards the new political authorities.



Source: BOP (Public Opinion Barometers), Foundation for an Open Society Romania.

Figure 4.3. Trust in political institutions (1996–2004) (%).

As a general conclusion, based on both 1996–2004 (Public Opinion Barometers) and 2004–2012 (Eurobarometers) data, trust in major political institutions (national Parliament, national Government, and political parties) is heavily influenced by the logic of electoral cycles. Every elections and forming of a new government is followed by an increased level of trust. In time, as the new administration unfolds, trust enters a declining path – until the moment of new elections

approaches. The pattern is that of a relatively high level of trust close to the beginning of each cycle, during the electoral cycle registering a more or less pronounced erosion of this capital of trust.

Over time, this pattern of trust in political institutions in Romania is strongly correlated with the fact that, starting with 1996, a change in power took place after each of the four ensuing parliamentary elections (1996, 2000, 2004, and 2008); every major political party that governed at the moment of elections has entered opposition thereafter. Even in the most recent (2012) parliamentary elections, the vote of the majority of citizens confirmed the change in government that took place several months earlier as a result of shifted parliamentary allegiances.

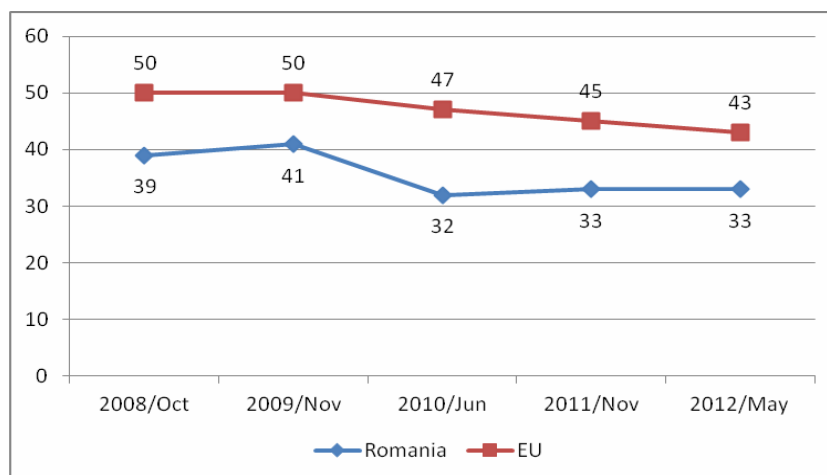
In Romania, trust in Parliament is persistently under the average trust in national Parliament at the level of the European Union.

Although in 2004 and 2005 the level of trust in Government in Romania was exceeding the average trust for national governments registered in the EU taken as a whole, in the following years, up to the present, trust of Romanians in their successive Governments was placed under the EU average.

Like in most of the European Union, the share of people trusting political parties is a modest one in Romania (ranging mostly between one tenth and one fifth of the population). As in the case of trust in Government, the share of Romanians trusting political parties was above the EU average in 2004 and 2005, and below that since then.

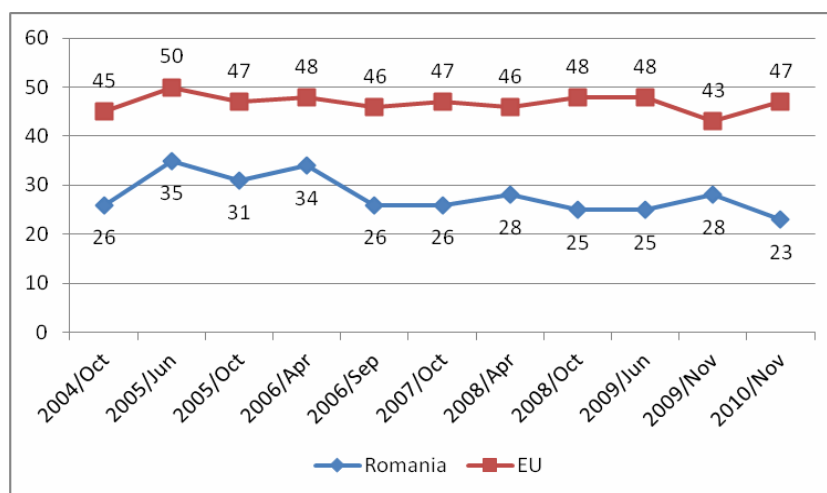
Figure 4.4 presents data on trust in local and regional authorities. Less than half of Romanians (most frequently, one third of citizens) tend to trust local and regional authorities. In Romania, authorities at the local level are constantly less trusted than the average value of trust at the level of the European Union.

Over time, trust in the legal system is expressed by almost half of the people at the level of the European Union. In the case of Romania, the share of trust in justice/legal system is 15%–20% lower than the EU average (Figure 4.5). In the period 2004–2010, trust in the legal system ranges between a minimum of 23% and a maximum of 35% of Romanians.



Source: Eurobarometers.

Figure 4.4. Levels of trust in local and regional authorities (%).



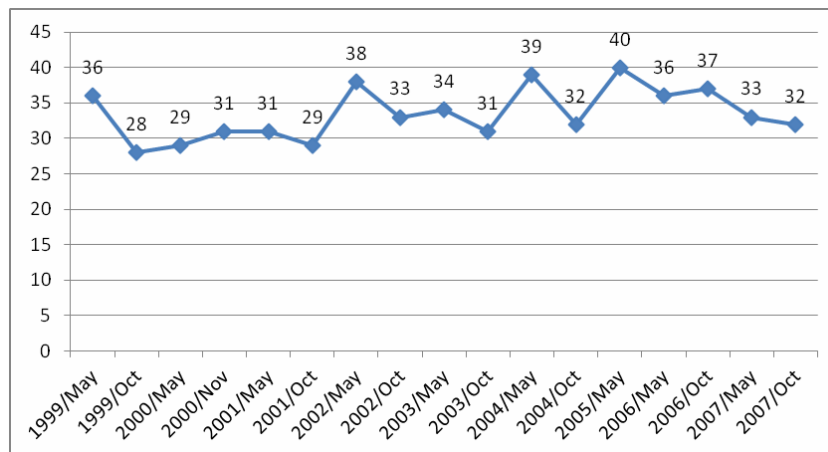
Source: Eurobarometers.

Figure 4.5. Trust in justice/the legal system (%).

### Trust in others

The share of those trusting other people in Romania is, on average, around 33%, with an interval of variation between a low of 28% and a maximum of 40% (as indicated by Figure 4.6). With a third of the population trusting other people, Romania ranks low in Europe, even compared to other Eastern-European countries.

According to EVS 2008 data, again Romania scores low on this item (17.6%)<sup>36</sup>, similar to Bulgaria (18.1%) and Portugal (19.7%).



Source: BOP (Barometer of Public Opinion), own calculations.

Figure 4.6. Trust in people (%).

In the case of Romania, as in the case of other former communist countries, an explanation for this low level of trust (in others and in institutions) could reside in the effects exerted by the communist regime and by the post communist transition on people's attitudes and behaviour, as indicated by Tufiş (2008). Communism had the effect of

<sup>36</sup> The difference between BOP and EVS results could be attributed to different wording of this item.



instituting a generalized distrust of people towards others and towards state institutions, people restraining their trust to family members and close acquaintances. Furthermore, the low performance (as evaluated by people) of state institutions in over two decades after communism has the effect of reinforcing people's distrust.

### **4.3. POLITICAL VALUES AND LEGITIMACY**

#### **Satisfaction with democracy**

More than in the case of other types of political regime, the persistence and consolidation of a democracy is profoundly dependent on citizens' support. Support given by the members of the polity appears as a variable that connects the political system to its broader social environment.

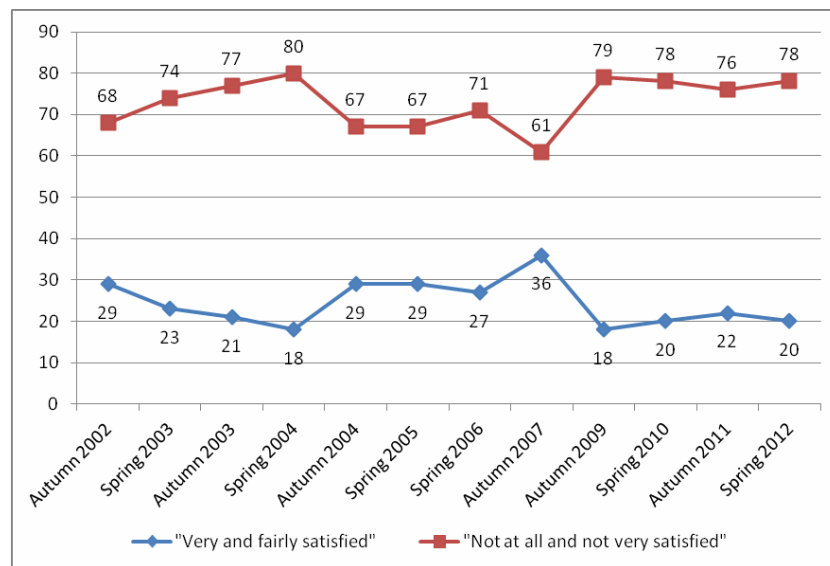
When analyzing the extent to which a democracy is rooted in people's beliefs, attitudes and evaluations, becomes important to differentiate between specific and diffuse support for that political regime (Klingemann 1999, Fuchs and Roller 1998, Dalton 1999, Mishler and Rose 2000). The notion of diffuse support tapes people's attachment to democracy (in terms of shared beliefs and values congruent to the democratic rule of society), while specific support refers to evaluations of current performance of the democratic system (being closely related to the perceived efficiency of the governing elite).

In Romania there is a strong acceptance of the democratic values and principles as demonstrated by numerous studies done on the matter (Precupețu 2006, Precupețu and Precupețu 2004, Mărginean 2000, Wessels and Klingemann 1998, Fuchs and Roller 1998, Evans and Whitefield 1995).

In contrast to people's high commitment to democratic values and to a large acceptance of democracy as an appropriate form of government, the functioning of democracy is poorly evaluated by the majority of Romanians (an average of only 24%, over time, of people satisfied with the way democracy works in their country) (Figure 4.7).

Even though a prolonged low performance of democracy in action could erode the legitimacy base of the democratic system itself, both people's positive views on democracy as a value and, in the same time, their discontent with the way democracy works in their country could be interpreted as a sign that citizens are critically interested in democratic governance and that they aspire to an improvement of the way democracy functions.

In Romania, people's negative evaluations on the manner democracy works (low specific support for democracy) have been directed not against the democratic regime itself, but inside the democratic system, by the majority voting for a change in power in the last 5 (out of a total of 7) general elections.



Source: Eurobarometers.

Figure 4.7. Satisfaction with the way democracy works in Romania (%).

### **Left-right wing positioning**

When asked to place themselves on the political left-right wing scale, almost one third of the population didn't know what to answer, by far the highest number in the EU (Figure 4.8). This high proportion is very significant as it might indicate the low relevance of the question in case of Romania. When taking into consideration those who refused to answer, we obtain more than two fifths of population for which the question have not been actual and/or relevant. Clear and strong opinions hold barely half of the respondents who place themselves symmetrically on the scale.

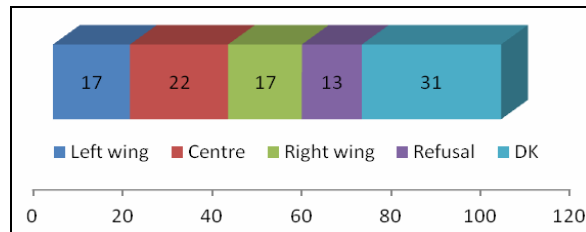
A similar finding was revealed by Comşa (2006), who showed for a longer period of time (1993–2006) the same pattern. Moreover, he explained the irrelevance in Romanian society of the left-right political taxonomy through the fact that political discourse did not employ these terms and did not convey a significant meaning to the citizens.

Benoit and Laver (2005) demonstrated that the notion of left and right have a meaning strongly tied to country context and to specific political periods within a country.

Rotation in power, initially thought of as an indicator of democratic consolidation, proved to be, in time, a permanent search of a better solution for the major problems of the country that had little to do with party ideology. The context of Romania made basic economic and social problems the main engine of political action.

Tavits and Letki (2009) demonstrated that the classic relationship between left/right orientation and public spending does not hold in post-Communist countries.

We believe that this applies to the Romanian context as well. Here, the actions of various political parties have been influenced by the opportunities they had when in power, responding to pressing problems of the moment and to the interest of their political clientele, and much less by long term strategy and ideological stances.



Source: *EB 74.1, 2010, own calculations.*

*Figure 4.8. Self-placement on left-right wing scale, 2010 (%).*

Currently, no political entity represented in the Romanian Parliament fits the profile of an extremist party.

A self-declared nationalist party (Greater Romania Party) has been represented in the Parliament from 1992 up to 2008, when scored poorly in elections (less than the electoral threshold of 5%) and became an extra parliamentary party. After the 2009 elections for the European Parliament, though, this party succeeded to send 3 elected representatives (out of a total of 33) to the European legislative body. The highest performance of this nationalist party was in the year 2000, when its leader entered the second tour of presidential elections and lost the presidential race by 33% to 67% in favour of his political opponent. This situation is similar to that of France 2002 presidential elections, when the leader of the French National Front entered the second tour and has been defeated by Jacques Chirac.

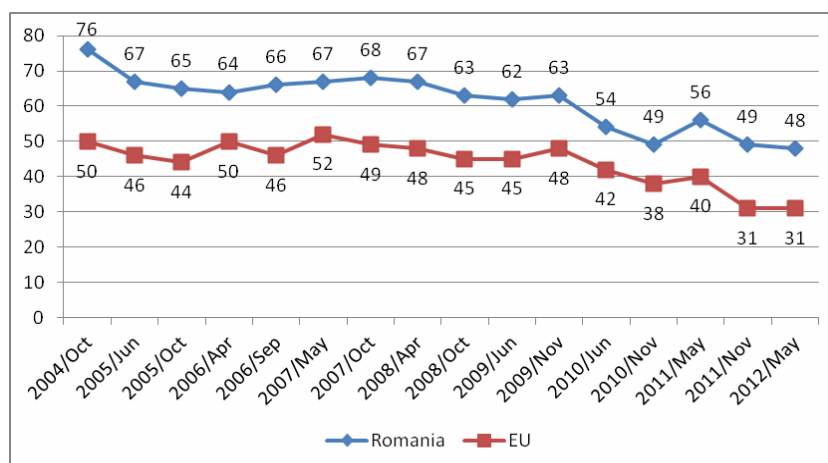
### **Evaluations of Romania's membership to the EU**

In 2004, three years prior to the admission of their country to the European Union, Romanians had a very positive image of the EU (shared by more than three quarters – 76% of the people in Romania). At the time, Romania (76%) and Ireland (75%) were the only two countries among the member and candidate states with such a big proportion of people holding a positive image of the EU.

Since then, the share of people for whom the EU conveys a positive image has steadily decreased, a trend reversed for a while in

the autumn of 2006 (pre-admission year) and in 2007 (when Romania became a full member state of the EU). The decreasing trend continued thereafter, in the spring of 2012 Romania registering its lowest percentage of people with a positive view of the EU – 48%, coming for the third time just under half of the adult population (Figure 4.9).

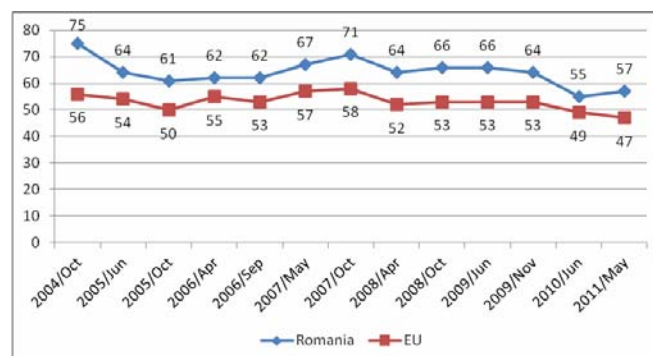
Constantly, the percentage of Romanians having a positive image of the EU was well above the average percentage registered at the EU level (with a plus of 15% – 20%).



Source: Eurobarometers.

Figure 4.9. Image of the European Union (very positive and fairly positive image) (%).

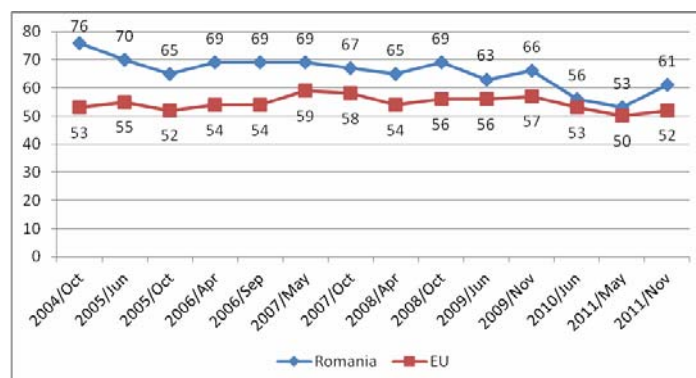
The majority of Romanians evaluate positively their country's membership to the European Union. The proportion of people in Romania considering EU membership a good thing ranges between 55% – 75% and has seen a decline from the year of Romania's admission to the EU (71% in 2007) to the more recent years (55% – 57%) (Figure 4.10). Overall, membership of Romania to the EU is evaluated in a positive manner by more than half of the population, a share continuously above the European average.



Source: Eurobarometers.

Figure 4.10. EU membership approval (EU membership – a good thing) (%).

In the last eight years, a majority of Romanians see EU membership as beneficial to their country (as indicated by Figure 4.11). Although the share of those that consider EU membership as an advantage for Romania has reduced over time (from three quarters to around 55% – 60%), the percentage registered in Romania in this respect was consistently above the EU average.



Source: Eurobarometers.

Figure 4.11. EU membership perceived benefits (own country benefitted from EU membership) (%).

### **Attitudes towards immigration**

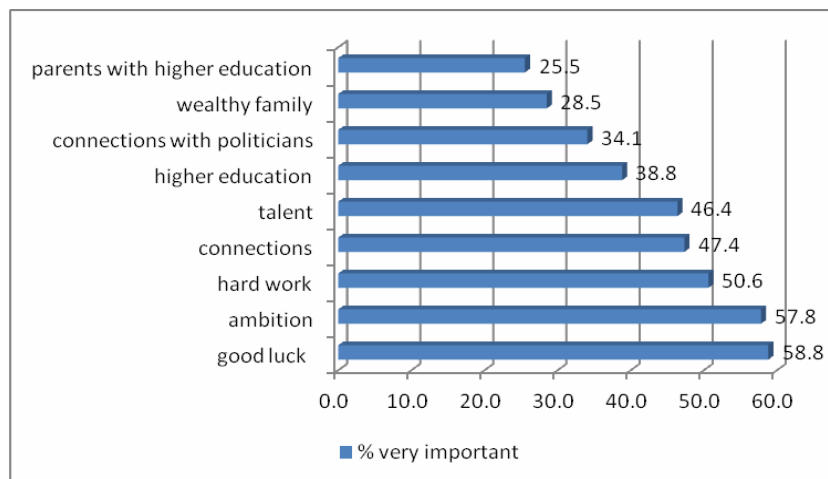
According to EVS 2008 data, the share of people in Romania agreeing to the statement that there are too many immigrants in their country is a minority of 17.1%, similar to a group composed of other former communist countries: Bulgaria, Estonia, Latvia, Lithuania, Poland and Slovakia. Among the European Union countries, a big share of respondents holding this opinion (over 90%) is specific to countries like: Cyprus, Greece, and Malta. This data indicate that immigration as a social problem is not on the current agenda of Romanians.

### **People's evaluations of factors of success**

Good luck was considered by the majority of the population as very important to get ahead in life and, according to the scores it received, appears to be the central element among the other possible drivers of personal accomplishment (Figure 4.12). A personal trait, ambition, also received high scores. Hard work is considered by half of the population as very important for getting ahead in life. Less important seem to be background factors like parents with higher education and a wealthy family.

Placing a major importance on good luck as a factor for getting ahead might be an indication of a state of alienation at personal level. It was explained that transition affected a basic relationship, that between work and pay, effort and reward (Mărginean 2006, Precupețu 2012). The convoluted circumstances of early transformation characterised by economic recession, unemployment, sharp reduction in income, rapid social polarisation and escalating corruption caused work partially to lose its meaning. Moreover, the models posed by the rapid affluence many times obtained in illicit ways eroded values like work and education. Consequently, people started to feel that factors that are not under their personal control, like good luck, are crucial in their society for personal success. Romania shares this pattern of beliefs with other Eastern European countries.

Other studies (based on EQLS 2003 data) proved (Mărginean 2006) that one fourth of the Romanian population believed that “in order to get ahead nowadays you are forced to do things that are not correct”, in comparison to only 10% in EU25 at the time. By 2007 (EQLS 2007 data, own calculations), the proportion of those sharing this belief had increased to 43%. Once again, this was interpreted as a perception of a state of normlessness in society, associated with weakening of social control, increased crime and corruption and erosion of moral values. At individual level, people feel alienated and develop an impaired relationship with their society which they consider it encourages behaviours and strategies that are not correct.



Source: *Quality of life diagnosis, 2010, Research Institute for Quality of Life.*

Question: Please tell us how important for getting ahead in life are the following: a wealthy family, parents with higher education, higher education, ambition, talent, hard work, connections, connections with politicians, good luck. Very important, important, neither important nor unimportant, unimportant, not at all important.

*Figure 4.12. Factors considered important to get ahead in life, 2010 (%).*



#### **4.4. VALUES ABOUT SOCIAL POLICY AND WELFARE STATE**

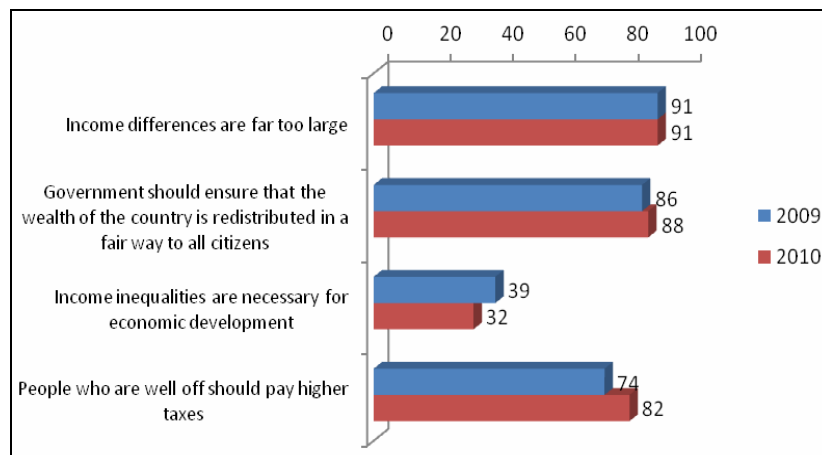
##### **Attitudes towards inequality and redistribution**

According to Eurobarometer data, in 2010 an overwhelming majority of the population, 91%, totally agreed that income differences between people are far too large in Romania. This seems a largely shared, consensual perception in society. The percentage situates Romania close to EU27 average (88%). In the EU, the percentage of those sharing this belief varied between 65% in Denmark and 97% in Latvia and Slovenia. The general agreement in Romania can be explained by the special circumstances of the country, where large amounts of wealth have been accumulated many times through non transparent, illicit means. The general rise in inequality during transition as well as the economic crisis at the time of the survey in 2010 might have added to the largely shared belief.

In 2010, 88% of people in Romania believed that government should ensure that the wealth of the country is redistributed in a fair way to all citizens, while the EU27 average was 85%. The lowest share of people sharing this belief was in Czech Republic (67%) while the largest was in Greece (97%). On the other hand, only 32% of respondents believe income inequalities are necessary for economic development, below the EU27 average (44%). The lowest support for this idea was in Greece (24%), while the highest was in Denmark (70%).

During transition in Romania, especially its first decade, the government role in welfare has been weak and mostly inefficient. Moreover, within the welfare mix, where government, market economy and civil society should all play their role in ensuring the well being of population, market economy failed in its role in this respect. Civil society, underdeveloped at first and with no tradition in Romania, picked up only later, with much external pressure and help, on gaining a certain stance in providing social services. Consequently, it is rather

easy to understand today the high support that the population gives to the idea the government should ensure redistribution. Rather than being the expression of a communist mindset (as also shown by Voicu 2005), it is the result of a process of social learning during transition, where people saw, on the one hand, rapid affluence by not fair means being accumulated and, on the other hand, that no efficient mechanisms compensated for unemployment, poverty and rising inequality.



Source: EB 72.1, EB 74.1.

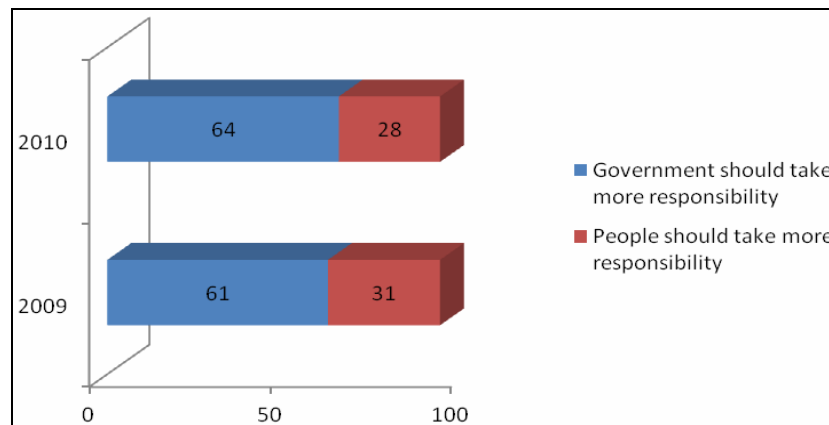
*Figure 4.13. Attitudes towards inequality and redistribution (%).*

An important majority of the population (82%) believed in 2010 that people who are well off should pay higher taxes, placing Romania around the EU27 average (79%). The proportion of the population sharing this view varies between 67% in Poland and Denmark and 96% in Greece.

Between 2009 and 2010, the support for the idea that income inequalities are necessary for economic development lowered to a certain extent while the view that the well off should pay higher taxes

gained a stronger support. This might be explained by the fact that in 2010, at the time of the survey, the effects of the economic crisis started to have an important bearing in people's lives, through salary cuts in the budgetary sector and the consequent effects in the economy (e.g. lowered consumption).

When looking at the perceptions towards welfare responsibilities (Figure 4.14) it is evident that a much more important role is placed at the level of government than at the individual level. Romania shares this model of beliefs with the majority of Eastern countries, as well as other countries like Ireland, Greece, Italy, Spain, Portugal and former Eastern Germany. Finding the same pattern for the first decade of transition in Romania, Voicu (2005) concluded that "collective mentality does not encourage passive expectations towards the state, but rather promotes the idea of welfare based on workfare, where both individual and the state play an active role" (Voicu 2005, 67). In EU, in 2010, the countries where the balance of views leaned towards a more important role of the individual in comparison to the government are Sweden, the UK, Denmark, the Netherlands and Lithuania.



Source: EB 72.1, EB 74.1, own calculations.

Figure 4.14. Welfare responsibility strategies (%).

### **Agreeing poor are lazy**

In a study using public opinion barometers data, Voicu (2003, 93) showed that laziness as cause of poverty ranks second in peoples' evaluations (24%), the most mentioned being a cause attributed to society ("unjust society": 38% of respondents having an opinion).

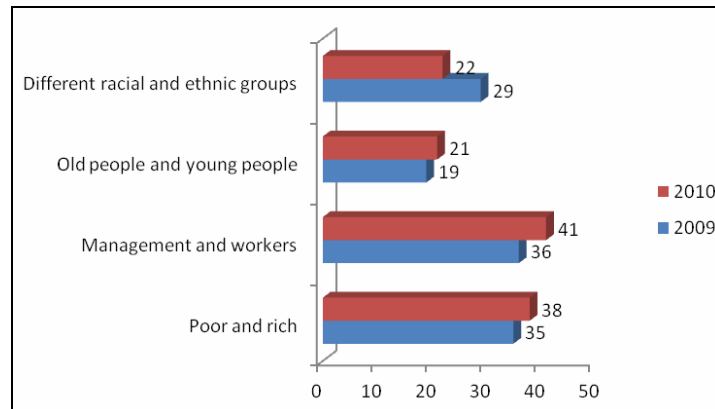
The social profile of those who consider that laziness is a cause of poverty is defined by an average age (50 years old) greater than the average age of the respondents. At the same time, such a view is shared mostly by people having a low educational status (primary and secondary school).

### **Perceptions towards tensions in society**

In 2010, 29% of people interviewed declared there is "a lot" of tension between different ethnic and racial groups in Romania. In the EU, the percentage of people declaring a lot of racial and ethnic tensions varied between 13% in Bulgaria and Lithuania and 63% in Hungary.

Perception of tensions between young and old people is among the highest in EU and above the EU27 average (16%). This might come from the different structuring of opportunities for the various generations during the process of transformation: while for the young generations opportunities expanded, for the older ones, they narrowed to a considerable extent.

Romanians are much more concerned with vertical tensions i.e. tensions between social classes (rich and poor; management and workers) than about the horizontal ones (between sexes, between generations, between ethnic groups) (Mărginean 2006). The prominence of vertical tensions might be the result of inequalities accumulated during transition in Romania. Between 2009 and 2010, the ethnic tensions have lessened while the other tensions tended to increase (as shown in Figure 4.15).



Source: *EB 74.1, EB 72.1.*

Note: percentage of people declaring “a lot” of tension.

Figure 4.15. Tensions between social groups (%).

## CONCLUSIONS

Participation in elections is on a decreasing course in Romania. Parliamentary elections saw a sharply declining turnout after their separation from presidential competition in 2008. The presence of Romanians in the voting booths in presidential and local elections, although engaged on the same declining path, remains at levels over 50% of the total electorate. Less than 30% of citizens have voted so far in the only two elections that took part for the European Parliament.

Lower levels of trust in others and in institutions registered in Romania as compared to other European countries (even among former communist states) is reflected in the small propensity of Romanians to associative life. Thus, it is possible that, in time, this deficit of social capital (in terms of trust and civic engagement) to negatively affect the legitimacy of authorities and of the democratic regime itself.

People's estrangement from political life is indicated both by the low level of trust in political institutions (government, parliament,

political parties, presidency) and by their preference for institutions that are highly personalized and visible (like the presidency, government, and local authorities) to the detriment of more abstract and less tangible institutions (parliament, political parties). So, granting trust to institutions appears to be dependent on how people feel having more or less control on them, and how they perceive the outcomes of these institutions (more or less direct/tangible, more or less relevant for their own lives).

Even if people evaluate poorly the functioning of the democratic regime, their attachment to the values and principles of democracy have the meaning of a citizenry that care about the fate of their democracy and are interested in improving its performance. In Romania, the rather low specific support for democracy was not opposed to the democratic regime, but driven inside the democratic system through a vote in favour of the political opposition. As a result, change in power took place in the last five general elections. The absence of extremist parties in Romania is another characteristic of the political life that favours the persistence and consolidation of democracy.

Enthusiasts about the process of the European integration at first, Romanians' attitudes in relation to the European construction have become more tempered in more recent years. More than half of Romanians, though, approve their country's membership to the European Union and consider it as beneficial for Romania.

People's perceptions and evaluations of social life seem to be marked by an estrangement from society at the individual level and by cynicism in social relations.

Proven by objective indicators, the unequal society of Romania is perceived as such by the majority of the people in their subjective assessments. A very large majority consider that there are huge disparities between incomes and that the fairness of redistribution should be ensured by the government.

## **CHAPTER 5**

### **EFFECTIVENESS OF POLICIES IN COMBATING INEQUALITY**

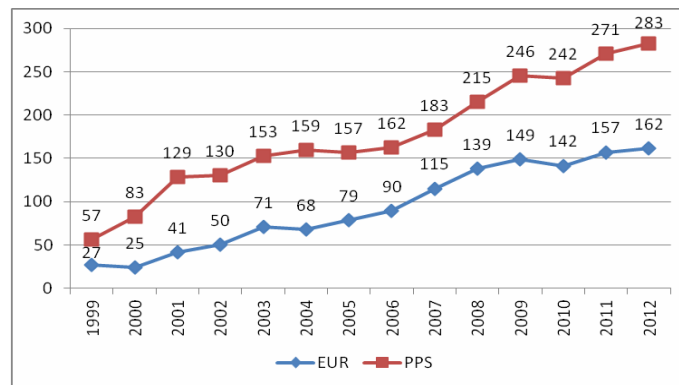
This chapter aims at detailing policies that can influence inequality and an assessment of their effectiveness. The focus in section 5.1 is on minimum wages and collective labour agreements as they can have an important bearing on labour income. Section 5.2 is dedicated to taxation and concentrates on levels and trends in taxation as well as on policy orientation. Section 5.3 concentrates on social expenditure and details unemployment benefits, social assistance, disability benefits, old age pensions, health care and family benefits. Last section is dedicated to education.

#### **5. 1. MINIMUM WAGES AND COLLECTIVE LABOUR AGREEMENTS**

In January 2012 the minimum wage in Romania was 162 Euro. In EU minimum wages varied from 138 Euro gross per month in Bulgaria to 1801 Euro gross per month in Luxembourg. When expressed in Euro, minimum wages in Romania are nine times lower than those in Ireland or the Netherlands. The gap lowers when looking at minimum wages in PPS, as they represent in Romania almost a fifth of their amount in the Netherlands. However, Romania still has the second lowest minimum wage in EU after Bulgaria. During the time described by the data (Figure 5.1) minimum wages registered a significant increase.

In Romania, the level of minimum wages varied during the time described by data between 21% and 33% of the average monthly gross

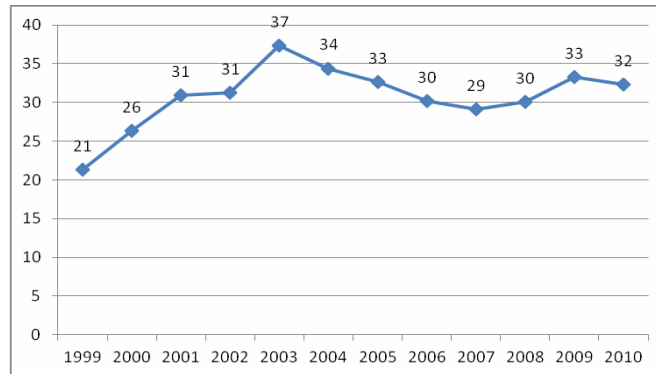
earnings in industry and services (Figure 5.2). In EU countries, in 2010 the minimum wages went from the lowest share in Romania to as high as 47% of the average monthly gross earnings in industry and services in Slovenia.



Source: Eurostat.

Note: Minimum wages as valid in January of each year.

*Figure 5.1. Monthly minimum wages.*



Source: Eurostat.

*Figure 5.2. Monthly minimum wage as a proportion of the mean value of average monthly earnings.*



In Romania, the minimum wage is subject to a governmental decision after consultation with social partners. The minimum wage for 2012 was established by government, at the proposal of the Ministry of Labour, Family and Social Protection, at 700 RON, a 4.5% increase in comparison with the last year.

Wage bargaining in Romania is mostly decentralised to enterprises and the government does not intervene in wage setting. The state-owned companies conduct their own wage bargaining within the limits approved by the law and after the approval of the budgets of the enterprises. Private companies also conduct their wage bargaining without having set upper limits by law, while at the lower end, the bargaining outcomes must exceed the minimum wage. Labour agreements have a validity between 12 and 24 months and can be extended only once for a maximum of 12 months. The Ministry of Labour and Social Protection and its territorial labour branches check the agreements reached, taking reference in a regulatory framework designed to promote consistency and transparency throughout the collective bargaining system (latest law on social dialogue, Law no. 62/2011). Wage amounts were set for the first time in 1999 through a national agreement whose role was to lay down an institutional framework was followed in the subsequent sectoral and enterprise-level bargaining.

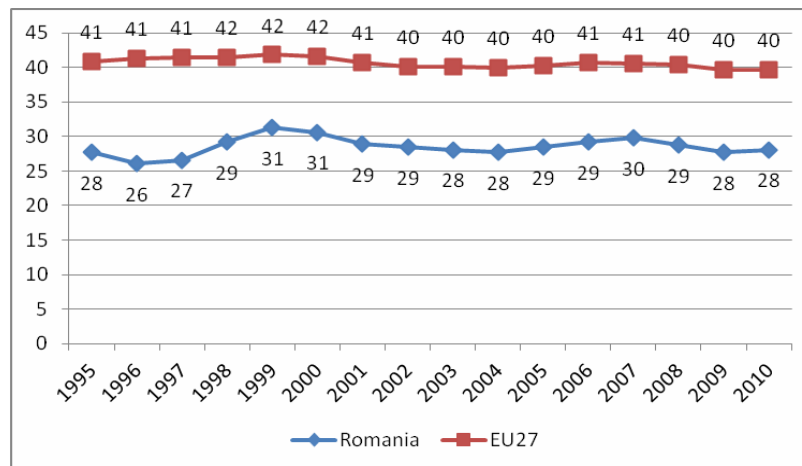
Collective bargaining can be done at enterprise level, groups of enterprises and sectoral levels, being mandatory only at enterprise level. In each enterprise, the agreement determines an enterprise-specific minimum wage, which must not be lower than the minimum wage fixed by law or higher-level collective agreements.

An OECD report (2000) assessed that by and large, the decentralised bargaining as practised in Romania has proved suitable in the private sector, leading to wage deals that are broadly compatible with the economic situation of enterprises and with a tendency towards higher differentiation of private-sector wages.

## 5.2. TAXATION

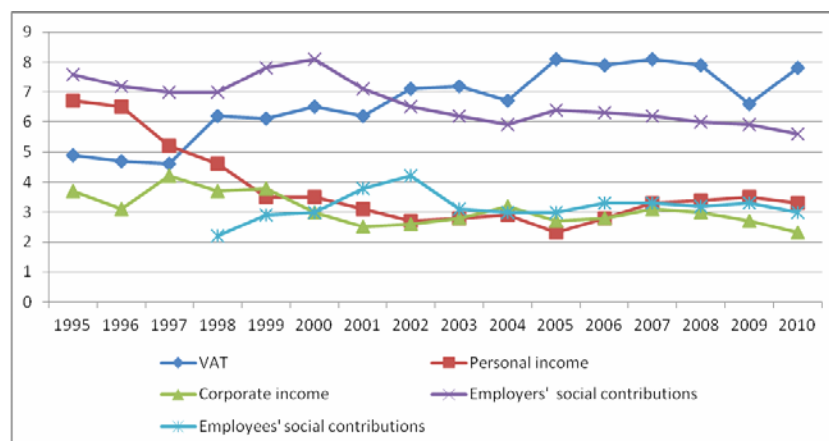
In 2010 the overall tax-to-GDP ratio of Romania was 28.1%, much lower than the EU27 average (39.6 %). The level of taxation in Romania is higher than that of Latvia (27.5%), Lithuania (27.4 %), and Bulgaria (27.4 %) and comparable to the level of Slovakia (28.3%) and Ireland (29.8%).

Between 1999 and 2004, the tax-to-GDP ratio declined, then picked up until 2007 as GDP registered higher growth (Figure 5.3). During the following two years, the tax ratio fell again due mainly to a decrease in VAT revenue. Even though in 2009 GDP dropped by 6.6 percentage points compared to 2008, the increase in excise duty rates in 2009 and VAT standard rate in 2010 (from 19% to 24%) ensured higher revenues from indirect taxes, which compensated for the drop in revenues from direct taxes and social contributions. The following year, 2010 the overall tax-to-GDP ratio increased by 0.3 percentage points with respect to the year before (Eurostat 2012).



Source: Eurostat.

Figure 5.3. Tax revenue as a percentage of GDP.



Source: Eurostat.

Figure 5.4. Tax revenue by origin as % of GDP.

In Romania there is a flat rate tax system with the flat tax set at 16%. The system was introduced in 2005 and replaced the previous progressive four-bracket system, with tax rates ranging from 18% to 40%. The rate of 16% applies to income from independent work activity, royalties, income from movable and immovable property (e.g. rents), but also to short-term capital gains on listed shares. Interest income is also subject to a final withholding tax of 16%.

Romanian corporate income tax is a standard flat rate set at 16% (before 2005 it was 25%). The system is based on taxing the corporate profits at the company level and on taxing distributed profits again at the level of both corporate and individual shareholders. Dividends received from other Romanian resident companies are exempt from taxation. Capital gains are generally treated as ordinary business income and subject to the same rate.

The standard VAT rate is 24% and was introduced in 2010, previously, VAT being 19%. Currently, a reduced rate of 9% applies to goods such as pharmaceutical products, medical equipment for disabled persons, books, newspapers, admission to cultural services

and hotel accommodation. Starting with 2009, a 5% reduced rate applies to the supply of social and some private dwellings. VAT exemptions without right of deduction apply to, among others, medical treatments, some educational and cultural activities, public postal services, certain banking and financial transactions, insurance and reinsurance.

In regard to property tax, immovable property is subject to a local building tax which varies between 0.1% for buildings owned by individuals and 0.25% to 1.5% for company-owned buildings. If the building has not been re-valued during the last three years, the rates for company owned buildings vary from 5% to 10%. Land inside and outside city limits is subject to local land tax. Local taxes have increased by approximately 20% in 2010.

There are neither net wealth taxes nor gift or inheritance taxes in Romania.

Social security contributions are payable at a combined rate (31.3%) for the employer and the employee. The rate, starting with 2009, is levied for employees with normal working conditions at 10.5%. Employers contribute at a rate of 20.8%. Higher rates for employers apply for special working conditions. Furthermore, both employees and employers contribute to the health insurance fund and to the national unemployment fund. All social contributions are deductible for income tax purposes.

The revenue shares received by social security funds account for 31.9 %, two percentage points above the EU-27 average (29.9 %) (Eurostat 2012).

The latest priorities in fiscal policy were set by an agreement between the country and the EU following financial assistance in 2009, 2010 and 2011 (as detailed by the Eurostat report on taxation trends, 2012): a package of fiscal measures such as adoption of a draft pension reform, adoption of a Fiscal Responsibility Law and implementation of fiscal consolidation measures. In terms of revenue, there were also agreed some minor measures: a broadening of the personal income tax base to include lunch vouchers, incomes from

capital gains, income from interests on bank deposits and severance payments; broadening of the tax base for social security contributions to include intellectual property rights.

The policy of the flat rate tax was implemented in 2005 in the attempt to increase the tax base by reducing tax avoidance and evasion. The adoption of the flat 16% corporate profit and income tax was assessed as not being successful enough in encouraging formal employment expansion, as the still high social contributions might have offset its positive effect. On the other hand, it was considered that the flat rate, enhanced flexibility, though limited, of the labour market. The flat rate, coupled with the revision of the labour code in 2005 (including more emphasis on active labour market policies and the simplification of company registration) has had beneficial effects and have resulted in the years to follow in increased employment and lower unemployment (Dăianu 2006).

A study by Voinea and Mihăescu (2009) investigated the effects of flat rate tax on inequality by using the Household Budget Survey data, through comparing the period before and after the introduction of flat rate tax. Their research showed that the gains from the flat rate tax were unequally distributed, with 10% of the number of employees gaining 40% of the total returns from the tax. As a general model, the higher the incomes, the bigger the benefits of the flat tax and the larger the household, the smaller the gains were.

The benefits from flat rate tax represent 3.3% of the net income of the households in the upper part of the distribution and 2.4% of the net income of the households in the lower part of the distribution. Only for the 1% top income households, the returns from flat tax represented 10% of their net income. Overall, only the richest 20% were the winners of the flat tax (Voinea and Mihăescu 2009). The authors' estimation is that the vast majority of gains went into consumption, especially in the case of rich households and only a small part went into savings.

### **5.3. SOCIAL EXPENDITURE**

According to Eurostat's ESSPROS system<sup>37</sup>, Social Protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved. The list of risks or needs that may give rise to social protection is, by convention, as follows: Sickness/Health care, Disability, Old age, Survivors, Family/children, Unemployment, Housing and Social exclusion not elsewhere classified.

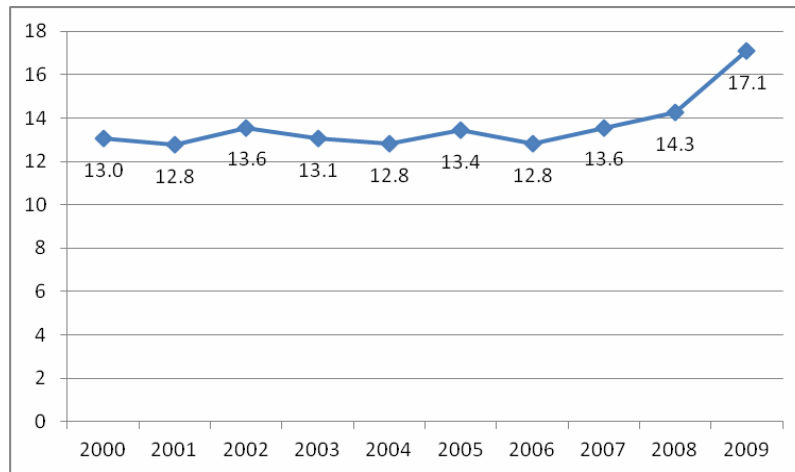
In 2009, Romania had the third lowest social protection expenditure in the EU as a percentage of GDP (17.9%), after Latvia (16.8%) and Bulgaria (17.2%). This means less than two thirds of the EU average (29.5%) and only about one half of the social protection expenditure of countries like Denmark (33.4%) and France (33.1%). During the time described by the data, the level of expenditure remained rather stable (Figure 5.5), with only a small, more marked increase in 2009.

Figure 5.6 shows the breakdown of social protection expenditure by function as a percentage of GDP. The largest function is old age, followed by health care. All of the functions maintained low, stable levels during the time described by the data, with the exception of old age that grew more markedly since 2007.

In Romania, the share of cash expenditure is larger than that of expenditure in kind (Figure 5.7) and old age is the most important contributor to cash benefits. The dynamics of cash benefits is therefore mainly due to this type of driver.

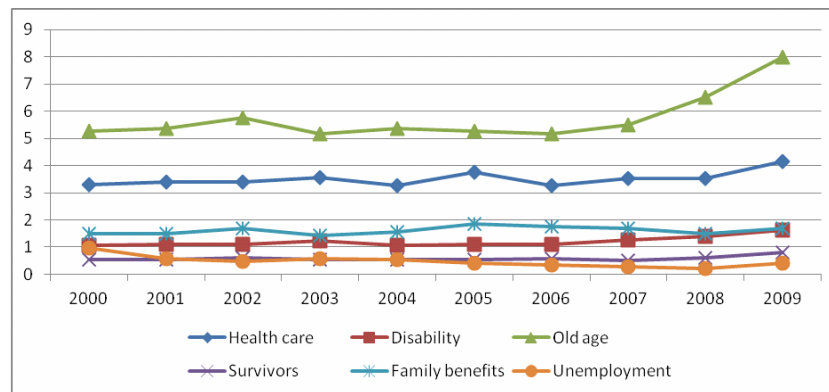
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<sup>37</sup> Romania implemented Eurostat's ESSPROS system in 2000. In the Annex to the book, longer data series are provided for social expenditure based on national data sources. We chose ESSPROS system as it allows comparability to other EU countries.



Source: Eurostat, ESSPROS system.

Figure 5.5. Total social protection expenditure as % of GDP.

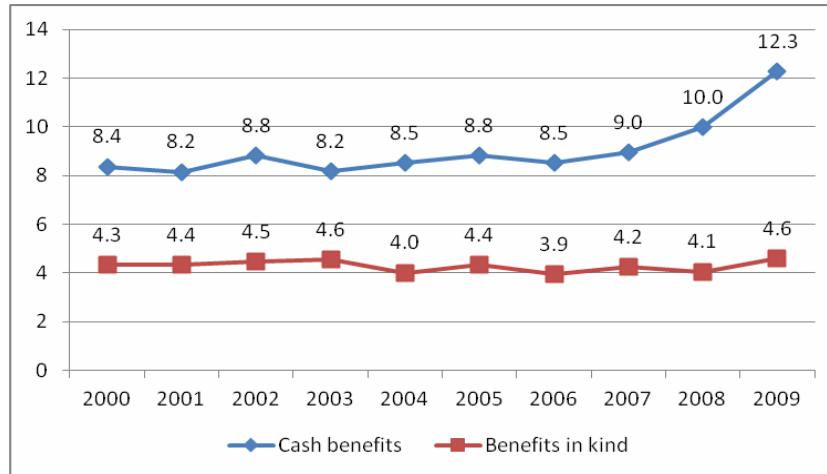


Source: Eurostat, ESSPROS system.

Figure 5.6. Social protection expenditure by function<sup>38</sup> as % of GDP.

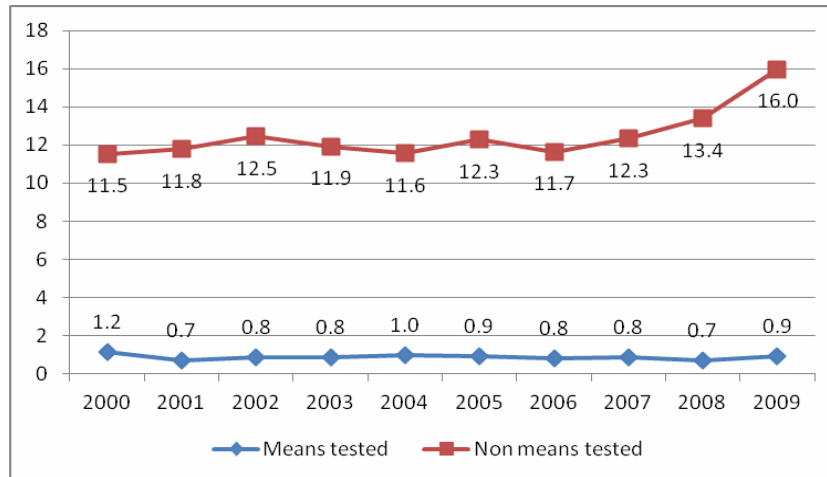
<sup>38</sup> Housing expenditure was null until 2008 and 2009 when they reached 0.02 of GDP.

### *Inequality in Romania: Dimensions and Trends*



Source: Eurostat, ESSPROS system.

Figure 5.7. Social expenditure by cash/in kind benefits as % of GDP.



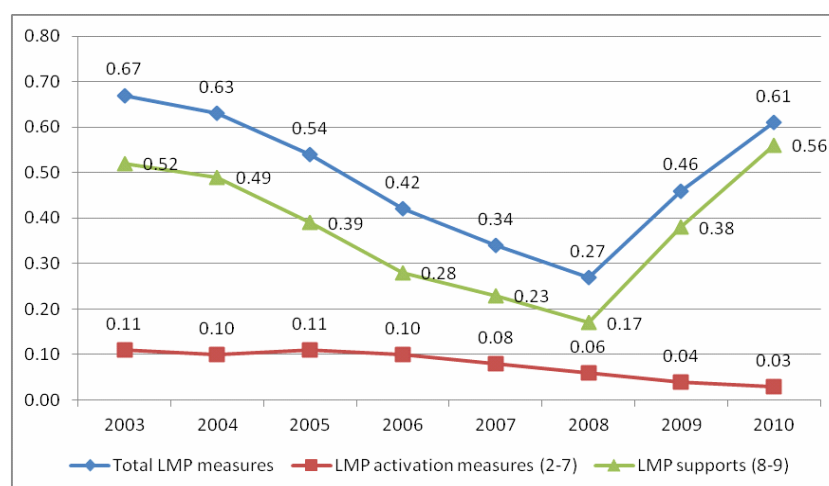
Source: Eurostat, ESSPROS system.

Figure 5.8. Social expenditure by means/non means tested as % of GDP.



### Active labour market policies

Active labour activation measures were launched in late 90s in Romania, although some attempts started in the early 90s. Today, the share of labour activation measures in the total labour market policy expenditure is insignificant in Romania: in 2010 was 0.03% of GDP, by far the smallest value in the EU. By comparison, this type of spending in the EU went up to about 0.86% in Finland and 0.81% in Sweden. Even though it never represented a major share in the labour market policy, during the time covered by these data (Figure 5.9) the expenditure for activation measures registered a decline.



Source: Eurostat.

Figure 5.9. Labour market policy expenditure as % of GDP.

#### 5.3.1. Unemployment benefits

The unemployment insurance system and stimulation of employment (Law no.76/2002, modified in 2011) guarantees the rights of the unemployed. The recipients of unemployment benefits are at

least 16 years of age, are in search of a paid job and fulfil the following conditions:

- they have no job, no income or receive, from legal activities, an income lower than the value of reference the social indicator of unemployment insurance and stimulation of employment, in effect.
- did not find a job in 60 days after graduating one of the levels of education;
- they are under the standard retirement age;
- had a minimum period of social insurance contribution of 12 months in the last 24 months;
- are registered with one of the territorial National Agencies for Employment.

The unemployment benefit is calculated differently for those who had working contracts which were ended due to reasons not attributable to them and for those who graduated different levels of education. For persons who had working contracts, the benefit is 75% of the guaranteed minimum wage for the persons that contributed less than 1 year, while for those who contributed longer, a certain amount is given, based on the calculation of the average basic salary earned during the last 12 months of contributions, multiplied with a percentage determined by different periods of contribution (the longer the period, the higher the percentage, up to 10% for those who contributed at least 20 years).

These recipients can receive unemployment benefits for a period between 6 and 12 months (plus 3 months), in accordance with different periods of contributions.

For those who graduated different levels of education, the unemployment benefit is 50% of the guaranteed minimum wage. These recipients are entitled to unemployment benefits for a period of 6 months (plus 3 months).

### **5.3.2. Social assistance**

The law of guaranteed minimum income (Law no. 416/2001) provides to families and single persons (over 18) with low incomes a minimum income. This type of income represents a social support

benefit meant to ensure a certain standard of living for those with no other means of income. The benefit amount varies by the number of persons in the families and is calculated as a difference between the value of reference social indicator and the monthly net income of the family or of the single person. The monthly net income of the family/single person includes all members' incomes (after all tax deductions are applied), all types of family allowances and social benefits. Social Aid is increased by 15% in case at least one family member is employed.

The recipients of guaranteed minimum income have the obligation (in case of family, at least one member) to perform a certain number of working hours in the benefit of the municipality.

In the context generated by the economic crisis, in 2011 (HG 50/2011), a series of restrictions were introduced that limited access to social benefits which were not generous in the first place. A list of goods that are considered not to represent the basic needs was introduced. Owning goods above the levels set by the list will lead to withdrawing the social aid.

Lately, the policy debate, especially in the context of cutting public expenditure, was about strengthening performance management of the social assistance system, improving equity and administrative efficiency, as well as about reducing error and fraud.

### ***5.3.3. Disability benefits***

In 2009, Romania had the second lowest expenditure of GDP (5.8%) on sickness and disability after Latvia (5.2%) and well below the EU average (10.6%).

Under the social insurance functions the disability pensions. In addition to this, a number of programs are in place for adults with disabilities. The major policy concern has been the promotion of rehabilitation and reintegration of persons with disability into mainstream society. The shift from residential to private care has been one of the goals of the administration for the past years.

In 2012 there were 627,243 disabled adults, the vast majority taken care of by family (610,071). Of the disabled persons, 17,172 (2.7%) were institutionalized. There were 327 residential centres for adults and 57 day care non-residential centres. (MLFSP 2012)

It is worth mentioning that some of the big residential centres perform also a social function, as many adults are institutionalized for social reasons (they have no family, no home, they have low incomes).

The general objectives set by the National Strategy regarding the social protection, integration and inclusion of disabled persons during 2006–2013 “Equal opportunities for disabled persons – towards a society without discrimination”, were: the promotion of social integration for disabled persons as active citizens able to control their lives, with the following specific objectives: providing support to families that include disabled persons and improving the degree of employment for disabled persons in the labour market.

The benefits vary according to the severity of disability. The benefits comprise in their maximal form, for severe disability, a monthly indemnity, complementary personal budget and an indemnity for care-taking persons all paid as lump sums to which it adds some in kind benefits such as free travel.

Disabled children also receive benefits depending on the severity of disability. In its maximal form, the benefit includes a double monthly children allowance, a complementary personal budget and an indemnity for care takers paid as lump sums. Generally, the same philosophy as in the case of disabled adults was followed by policies, through dismantling institutionalized care and shifting resources towards developing community social services for children and families, family care in the attempt to preventing the separation of the child from his/her family.

#### ***5.3.4. Old age and survivor pensions***

In Romania, the pension system consists, according to the current legislation, in a three pillars system, although only the first two are fully functional.

**Pillar I**, pay-as-you-go, is the public pension system, and is compulsory.

**Pillar II** comprises privately-managed compulsory pensions and consists in the development of a system of individual pension funds which are in the portfolios of private companies. The mechanism for these pensions started in 2008 and consists of reducing the individual contribution rate and transferring the amounts resulted to the privately-managed pension funds. The social contributions are payable by employees under 35. They start first with an amount of 2% and increase gradually over a period of 8 years until they reach 6%. In the beginning, for employees under age 35 the contribution was compulsory, for those between 35 and 45, the contribution was optional.

**Pillar III** is formed of voluntary contributions of the insured to different pension funds or insurance companies specialized in the field. The provisions regarding the occupational pension schemes came into effect in 2005 but they are not fully functional.

**The public pension system** is the one that is part of public social expenditure that was presented above. In a similar way to the other EU countries, old age and survivor pensions represent the biggest function of the social expenditure in Romania (8.8% of GDP).

The public pension system gives the right to receive a pension when the retirement age is reached, following a full contribution period which is stipulated by law. The retirement age has been the subject of various modifications in time. In 2000, the retirement age was increased from 57 years for women and 62 for men to 60 for women and 65 for men, to be fully reached in 2014. In 2010, the retirement age was increased again to 63 for women, to be reached in 2030, while 65 remained the threshold for men to be fully reached in 2014.

The number of years of contributions, in order to qualify for the minimum pension is 15 years, to be reached in 2014. The full contribution period is 30 years for women and 35 years for men, both to be attained in 2014. The contribution period is to be increased at 35 years for both women and men by 2030. The pension for old age is

established based on the contributions paid during the whole active life and includes re-distribution calculation items based on the contribution principle. A scoring system allows workers to accumulate points for each full year worked. At retirement, the value of the new retiree's points is determined according to a formula and a value of the pension point established by law. The law also has provisions for an early pension or an early partial pension, for a period of up to 5 years before the official retirement age is reached.

The PAYG system is financed from the social security contributions paid by employers and employees. The employer's contributions are established on a rate basis, depending on the severity of labour. For normal conditions, the total contribution rate in 2010 was 31.3%, out of which 20.8% is paid by the employer and 10.5% by the employee. For particular working conditions contributions were 36.3% (25.8% employer and 10.5 employee) and for special conditions (like those in the mining industry) contributions were 41.3% (30.8% employer and 5% employee)<sup>39</sup>. The global contribution is at a record high and was raised starting in 2009, after a 2005–2008 period when they had been lower.

The reforms of the public pension system (in 2000) and then further modifications (in 2004, 2006, 2007 and 2010) aimed at creating an equitable redistribution<sup>40</sup> and at improving the connections between paid contributions and provided benefits, triggering the increase of the general level of the individual benefits by a harmonisation process, as well as to the improvement of the long-term sustainability of the system. However, the delay in reforming the pension system was one of the factors that perpetuated the structural problems of the system (Mărginean 2008).

#### *Challenges faced by the public pension system*

Romania, along with other countries in the EU faces the challenges posed by the ageing of the population, low fertility rate and

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<sup>39</sup> MLFPS data.

<sup>40</sup> According to the Strategic national report regarding social protection and social inclusion, 2008–2010.

a low economic output. However, there are also specific problems posed by the specific set up of the system.

During the first years of transition, due to the economic restructuring, a series of provisions were introduced mostly for social protection reasons. Early retirement with full pensions was granted to persons who had contributed longer than thirty years (men) or twenty-five years (women). People, who would normally go into unemployment, have been absorbed into the pensions system. The stock of retirees increased from 3.6 million in 1990 to 5.7 million by 1998 (NIS data). The number of contributors declined from 8.1 million in 1990 to 5.3 million in 1998.

In addition to early retirement, a series of advantages were granted to special interest groups, like those for members of the military, MPs or magistrates. Moreover, around elections, the various governments increased pensions as a largely populist measure, even though they were allowed later to be eroded by inflation.

Figure 5.10 shows pensions replacement rate. From 1990 to 2006 the value of pensions in real terms significantly deteriorated and they came to represent only 33% of the average salary in 2006 in comparison to 51% in 1990. Starting with 2007 pensions started to increase in real terms but they reached and surmounted their 1990 level only for a brief moment, in 2010, to fall again in 2011.

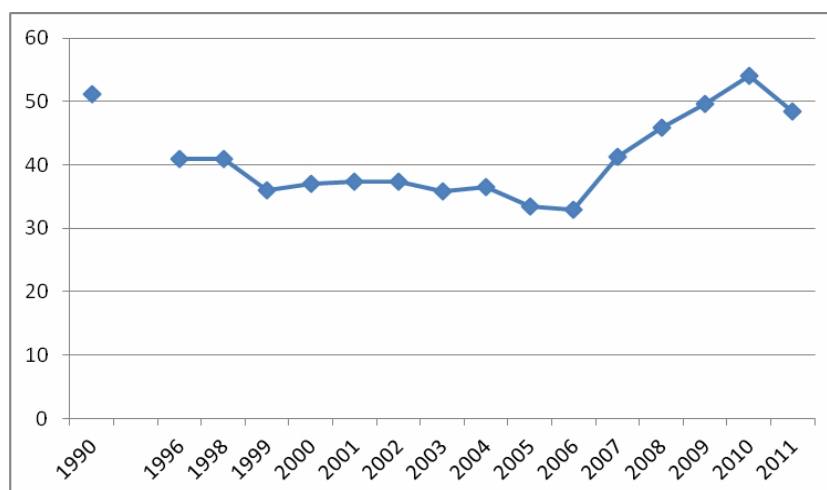
The dependency ratio, contributor-pensioner went down from 3.5 in 1989 to around 1 in 2011. The number of employees was 5,258,668 in 2011, while the number of pensioners was 5,422,000<sup>41</sup>.

Between 1990 and 2002, the number of beneficiaries of the public pension system almost doubled, as it increased from 3.4 million in 1990 to 6.3 million in 2002, when it peaked. This was due to economic restructuring (especially during the first years of transition) which sent into unemployment large numbers of people, while others left the active labour force and most probably went into the informal economy (Menil 2002). Currently, there is still an important underground economy

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<sup>41</sup> Data source: National House of Pensions and Other Social Security Rights.

(estimated at 1–2 million) (MLFSP, 2008) where no contributions are paid, impeding on the potential pension of these persons at retirement age. Moreover, early retirement provisions, and the lax provisions in regard to disability pensions contributed to the enlargement of retirees stock. The number of disability pensions increased from 208,000 in 1990 to 920,100 in 2009, when it peaked. Currently the number of disability retirees is 786,900 (NIS data).



Source: National House of Pensions and Other Social Security Rights.

Figure 5.10. Pensions<sup>42</sup> replacement rate  
(ratio between the average pensions and average net salary).

The low occupation rate in Romania means a low base of contributions. Moreover, the high contribution rates tend to induce employers to declare lower wages than those actually paid to their employees (Zaman and Stănculescu 2008). Another feature of the Romanian work force is a large group of emigrated workers (estimated at

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<sup>42</sup> All values for December of each year, with the exception of 1991 (October) and 2011 (November).



2 million people)(MLFSP, 2008). Many will probably contribute to the social security system in the host country. However, there is also a still significant group works in the grey economy that does not contribute to the pension systems and which makes them vulnerable when retired.

The coverage of self employed is only partial. Although the insurance is compulsory, their inclusion is rather optional. Especially during 2001–2006, the number of insured among the self employed was relatively reduced, denoting a lack of attraction of the system and its reduced capacity to monitor such category of insured (MLFSP, 2008).

There is also an asymmetry between the real retirement age and the legal age. Due to the provisions for early retirement and disability pensions, overall, the real retirement age is lower than the legal age. In 2009, the legal age of retirement for most people in the state system was approximately 63.7 years for men and 58.7 years for women, while the real retirement age was much lower, at 56.6 for men and 55.7 for women (Ghețău 2010).

### **Inequalities**

#### *Men/women*

Women have lower pensions and, consequently, higher poverty risks in comparison to men, the difference amounting to at least 10% (Preda and Grigoraș 2011) and reflecting the discrepancies in the occupational degree, the low scoring given to women for the non contribution times (child care leaves), and the lower retirement age.

The difference between women and men in retiring age remains a topic of public debate in Romania. Some argue that, while trying to protect women by allowing them to retire earlier than men, one can only discriminate against women (Preda and Grigoraș 2011). It was maintained that women usually exit prematurely from the labour market, at an age when salaries are higher (the last active years) and the position in the hierarchy is usually higher, thus losing a part of

their potential income. However, opposing arguments will maintain that women, even though with a higher life expectancy, spend more time during their lifetime in illness (as showed by data) and are more exposed to mental illnesses. To this general model, it adds some specific factors for Romania: the unequal distribution of housework tasks due to a traditional distribution of roles, which makes women work longer hours than man, and the involvement in raising grandchildren in a country where children care services are heavily underdeveloped. It is also worth mentioning the important support in society for the idea of women having a lower retirement age than men.

*Farmers/social security pensioners*

In May 2012, the public pension system counted 5,326,200 pensioners out of which 727,700 retired farmers<sup>43</sup>. Over time, farmers' pensions went in and out of the Social Security Budget, alternatively being supported from the state budget. Currently, they are paid from the state budget.

Former farmers had very little incomes and many times they were paid in kind. Their pensions, calculated at a low level, have been supported either by the social security budget or by the public budget (as showed above). The amount of their pension was in 2012 less than half (43%) that of social insurance pensioners. Currently, independent farmers don't pay any contributions and it is likely that their situation in old age will be rather difficult.

*Social security pensions/special (occupational pensions)*

Between 2001 and 2008, about nine different pieces of legislation were passed as modifications to existing laws to promote special pensions for former employees in the army, secret services, judiciary, police, parliament, aviation and court of accounts. These entitlements were maintained until 2010 and 2011, depending on the specific category with the exception of magistrates for which the special pensions still

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<sup>43</sup> National House of Pensions data.

apply. During the time they were in force, among the special categories, the pensions varied a lot, the higher amounts being those for former magistrates and aviation employees going up more than 10 times the average public pension (Dragotă and Miricescu 2010).

In 2010, there were around 200,000 pensioners receiving special pensions. From March 2009 until June 2010, the number of the special pension's beneficiaries has increased sharply in all the sectors, between 3.8% in the case of the Parliament Members and 23.7% in the case of the magistrates, while the increase in the ordinary system was only of 1.3% (Dragotă and Miricescu 2010).

*Survivor pensions.* Survivor pensions are granted to the children and the surviving spouse of a deceased person if he/she was a pensioner, or satisfied the conditions for obtaining a pension. Beneficiaries may receive a pension along with income from a professional activity, if the gross monthly income is not higher than one quarter of the average gross wage. In May 2012, there were 601,900 survivor pensioners. Their average pension amounted to half of that of the social security pensioners. The level of this type of pension will be established as a percentage of the average annual score achieved by the deceased, depending on the number of survivors.

The policy debate concentrates on a series of issues that should find solutions in order to insure the sustainability of the public pensions system. Broadening the total level of coverage, extending the contribution period, better collection of contributions are main concerns regarding the system. Encouraging work until full retirement age as opposed to early retirement and better control towards disability pensions are also main themes of policy. In order to address men/women inequality, policy discussions converge towards to idea of ensuring equal contribution strategies between men and women. Addressing the budgetary deficit is of crucial importance while the solutions are not fully foreseeable. Proposals include issuing government securities and privatisation.

### **5.3.5. Health care**

During transition, Romania undertook a major reform of the health care system. Until the mid 1990s, the country had a national centralised health care scheme, inherited from its communist past, which was integrated into the state budget, financed by general taxation, and was highly regulated and standardized. While the system inherited from the communist period provided universal coverage, it was also facing a series of challenges that perpetuated for almost the first decade of transition. It was characterised by a relatively low percentage of the GDP dedicated to health care, a centralized and unequal allocation of resources (with informal payments that perpetuated as a strong pattern to today), a vertically integrated system relying mainly on a rigid hierarchical command and control structure, financial flows independent of outcome, while also having a low responsiveness to local needs. Moreover, health services were rather of a low quality, “with supply of beds and personnel not matched by the provision of equipment and drugs, poor-quality primary level services, inadequate referral and an overemphasis on hospital-based curative services, inequalities in health care provision between regions and between different social groups, and obsolete, discriminatory and potentially abusive system for mental health” (Vlădescu et al. 2008, 139).

Romania adopted in late ‘90s new schemes of social insurance based on contributions and set up health insurance funds. Also, private practice was introduced in parallel with the state system, while the GPs who were previously employed by the state, became independent practitioners, the majority of them being self-employed.

The system encountered serious difficulties in generating adequate revenues due to the small base for contribution, just like in the case of pensions. Consequently, the national health system is under-financed and has serious problems in meeting the needs of the population. The latest provisions aiming at enlarging the contribution base and implementing co-payments for medical services, have not proved yet efficiency in generating substantially more revenue.

Currently, the system is based on mandatory insurance premiums paid by the employee (5.5%) and the employer (5.2%) as a fixed percentage of income. There is also optional coverage, the insurance premiums being 10.7%. Pensioners with incomes under the pension's taxation base are exempt from contributions. For other categories like people receiving social assistance, the unemployed, conscripted soldiers, pensioners with incomes above the pension's taxation base and people in custody or under arrest, which were previously exempt, contributions are being raised from the social security budget. Other categories, such as children and young people, and the dependants of an insured person (wife, husband, parents and grandparents) are covered.

The insured population is entitled to receive a basic benefits package that includes health services, pharmaceuticals and medical devices. The benefits package and the conditions for service delivery are provided by the yearly framework contract elaborated by the National Health Insurance Fund, agreed by the Ministry of Health and approved by the government.

The main goals in regard to health, as reflected in the latest legislative provisions (Health Reform Law No. 95/2006) were the effective and equal access of citizens to basic medical care, the increase in the quality of life by improving the quality and the security of medical services and the improvement in health and demographic indicators, bringing thus the health status of the population closer to the EU level. The main concerns of the health care system are related to enlarging the contribution base, measures to increase utilization of primary, ambulatory and home care services, development of special home care programmes for the elderly and patients from isolated areas, in order to prevent their admittance to hospitals for social reasons. Also, decentralization has been a major topic of the public debate in regard to healthcare, objectives in this realm aiming at creating local level structures of public health authorities that will better answer local needs.

In time, a series of inequalities were created due to the particular set up of the health care system.

Between 1999 and 2002 the District Health Insurance Funds were responsible for raising social health insurance contributions locally from employers and employees working in the respective district. They retained and used 75% of collected funds, 25% being sent to the National Health Insurance Fund for redistribution. Given the different levels of development in the various regions, the collection of contributions created more inequality. After 2002, the system of collection changed and went to the national level so as this type of discrepancy was levelled out.

The setting up of two special health insurance funds (for employees of ministries) created for a time advantages for their respective insured persons due to the lower risk profiles and the greater revenue-raising capacities (Vlădescu et al. 2005). Currently, these inequalities are no longer present as funds are allocated by National Health Insurance Fund at district level based on a formula that includes the number of insured persons and a mix of population risks.

Medical services are unequally distributed at local level. Urban areas are more advantaged in comparison to rural, while more developed regions are also more advantaged in comparison to those less developed. As showed by Vlădescu et al. (2008) in urban areas there were 3,759 pharmacies registered while in rural areas the figure was only 1,102, while specialized services such as mental health care are unevenly distributed across the country. Territorial imbalance in health services was augmented by the latest decisions motivated by the cut in social expenditure to close small inefficient hospitals, especially those in small cities.

Insufficient coverage for some categories, like Roma, also creates important disparities by ethnicity. 37% of the Roma interviewed in a survey (Ivanov and Zheliazkova 2002) declared they didn't have insurance. Although the situation improved lately, it is likely that this population has lower coverage than the majority. In case of Roma, there is a combination of factors like low economic resources, lack of identity papers in many cases, lack of information that makes this population less covered, and thus more exposed to health risks.

Some steps have been taken in order to address the current inequalities in health: offering incentives for family doctors to locate themselves in isolated rural areas, training Roma representatives as health mediators to facilitate contact between health personnel and Roma communities, hiring Roma health mediators at the district level of medical authorities, training community nurses as a link between primary health care practices and community social services, and programmes offering free medical services for deprived population groups (Vlădescu et al. 2008).

#### **5.3.6. Family benefits**

Family benefits represent the third largest function as expenditure of GDP after old age and health care. In 2009, the expenditure for family benefits in Romania (1.7%) was well below the European average (2.3%), but still higher than many countries in the EU like Portugal (1.5%), Poland (0.8%), Spain (1.5%), Malta (1.3%), and the Netherlands (1.3%).

In Romania, there is a large array of benefits designed to support families and children. The complexity of the system is relatively recent. Until 2004, the most important direct support forms for families and children were the universal children allowances, maintained at a very low level (less than 5% of the average salary). After 2004, the financial support for families and children diversified by introducing the allowance for children with single parents, increasing the children allowance and through modification of the eligibility criteria (Popescu 2008).

The *monthly state allowance for children* is a universal benefit which is received by all registered children up to 18 years of age. Young persons over 18 can also receive the allowance if they are attending upper secondary and post-secondary education. The amount is higher for the child up to 2 years old (3 years old in case of disabled children) and then drops for children between 2 and 18 years old. Among the family benefits, the children allowance represents the highest share in GDP, 0.56% in 2010 (own calculations based on NIS

data). This was an important form of support during transition, especially for poor families where this type of benefit frequently represented the only income (Zamfir 2005).

1. The *income maintenance in the event of a child birth* is given to insured women (in-work) and to women who lost their job less than 9 months before. They are entitled to maternity benefits for a period of 126 days that includes pregnancy leave and postnatal leave. The payments are made from the health insurance budget. 85% of the average monthly income of the last 6 months from the last 12 months of the subscription stage, up to 12 minimum gross wages.

2. The *indemnity for parental leave* is given to one parent who can receive indemnity and parental leave for 2 years (3 years in case of a disabled child). 85% of average net income of the last 12 months prior to the child birth, but no more than 4,000 lei (the equivalent of approx. 870 Euro). The indemnity amount is raised with 600 Lei (130 Euro) for each twin child.

The current policy encourages parents to take rather long parental leaves. On the one hand, this is beneficiary for the child due to the quality of care. However, it is worth mentioning that in Romania child care facilities for children up to 3 years old are heavily underdeveloped, while there is no support for private care. Therefore, there is no real alternative for small children other than parents care, this delays reintegration of parents into the labour market.

3. The *complementary family allowance* is a means tested benefit and is received monthly by the families whose minimum net income is below a certain level established by law. This type of allowance is limited up to the fourth child which makes it inefficient as an instrument for combating poverty. It was argued (Teşliuc et al. 2001, Popescu 2008) that child allowances can substantially reduce poverty for poor families with children. Limiting the complementary family allowance up to the fourth child impedes on the inclusion in the benefits system of the poorest children.



4. The *allowance for children with single parent* is a means tested benefit, paid for those families for whom the individual income per person is below a certain level.

5. There are also some benefits given in case of a new born like *birth indemnities* and *outfits for the new born* as a lump sum.

6. The incentive for child raising is given for all children aged less than 2 years old (less than 3 years old in case of disabled children).

All the above family benefits amounted in 2010 at about 1.2%GDP (own calculations based on NIS data).

The policy discourse inclined towards the ‘responsible fertility’ idea (Popescu 2008), meaning that policies should encourage fertility by taking into account the available resources at the family level. The policy efforts have been also towards reducing poverty for children and their families.

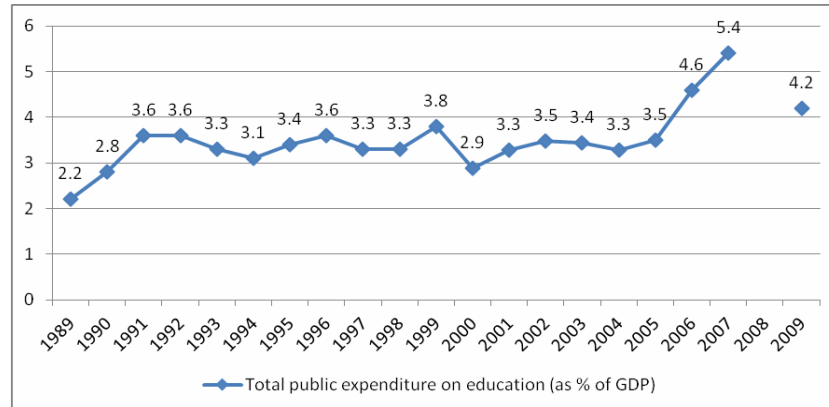
#### **5.4. EDUCATION**

In 2009 Romania allocated for education 4.2% of GDP, representing the second lowest share allocated to education in EU after Slovakia (4.1%). This share of GDP corresponds to less than a half of what Denmark spends annually (8.7%) and places Romania well below the average of EU countries (5.4%). Despite some increase since 2005, the expenditure remained at very low levels during the time described by the data.

During the past years, expenditure on higher education and secondary education increased, while for primary level of education expenditure decreased (Figure 5.12).

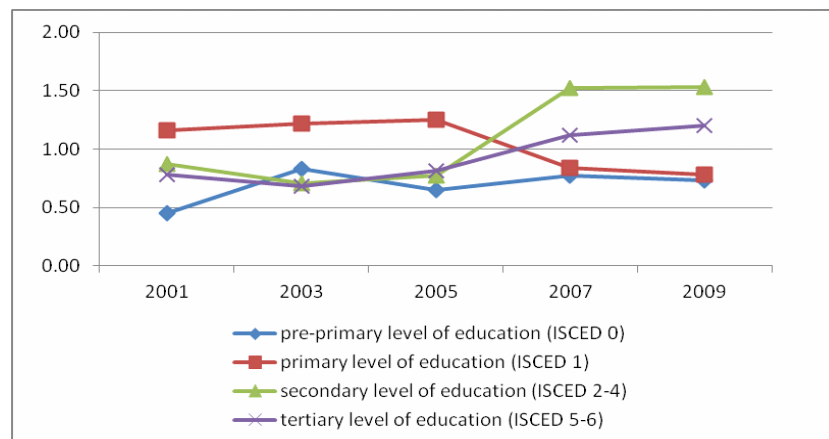
For the past 22 years, Romania’s education system has been under perpetual reforms, either deep-seated or less significant, depending on the objectives of the various governments and political moments.

### *Inequality in Romania: Dimensions and Trends*



Source: *Transmonee 1989–2007, Eurostat 2009<sup>44</sup>*.

*Figure 5.11. Total public expenditure on education as % of GDP, for all levels of education combined.*



Source: *Eurostat*.

*Figure 5.12. Total public expenditure on education as % of GDP by levels of education.*

<sup>44</sup> Data for 2008 is not reported.

The reform of the education system went through various stages, as identified by Birzea (2000):

- A first stage of *deconstruction*, immediately after 1990, where the focus was on the removal of the restrictions imposed by educational policy in communist times: elimination of the ideological indoctrination from education, the reduction of compulsory education from 12 years (which was in the course of generalization) to 8 years, the reform of polytechnic education, the diversification of secondary education and of high schools types, the emergence of private higher education etc.;

- A second stage of relative *stabilization* 1991/92, an attempt of consolidation of the system;

- A phase of *restructuring* (1993–1997), where a new educational policy was designed based on a new law of education (1995, modified in 1997 and 1999), law on university accreditation (1993) and of the Statute of the teaching personnel (1997);

- The stage of *comprehensive or accelerated reform* (1998–2000), where objectives have been more substantial: the curriculum reform (educational planning, programmes, textbooks) and European adjustment of the national curriculum; the transition from reproductive to problem solving learning; re-launching of the university scientific research; the creation of a relevant connection between all types of schools and the larger economic, administrative and cultural environment; infrastructure improvement and the introduction of new technologies in teaching and access to the internet; decentralisation and increase of educational institutions' autonomy; the introduction of advanced forms of international co-operation.

To these stages, we might add for the following years two more:

- A stage of *relative stabilization and more gradual reforms* (2001–2009). This stage was marked by the introduction of the Bologna system in higher education. Compulsory education was extended to 10 years in 2002.

- The last phase would be that of a *final drastic reform* (finalized with a new law of education in 2010) characterized by structural

modifications of the education system as well as a change in the philosophy guiding education. The early education principle has been put into practice by starting school at 6 years old through a preparatory class, lower secondary school was extended to 9<sup>th</sup> grade in an attempt to curtail dropout rates, upper secondary school was reduced to a duration of 3 years (grades 9<sup>th</sup>–12<sup>th</sup>).

These reforms have put a high pressure on all the actors involved in the educational process: policy makers, teachers, parents and students. Changes have translated into a continuous instability that affected long term plans for students and their families, as well as career plans for teachers. Moreover, it was explained (Mărginean and Precupețu 2010) that this instability turned at individual level into a perception that the education system is not accessible for all.

The reforms, starting with the '90s aimed at decentralisation of the education system with the aim of lessening the financial pressure towards central authorities and transferring partially or totally funding responsibilities towards local levels. However, for a country with an economy affected by successive crises and with a long tradition of centralization, the process proved to be very difficult. Moreover, given the disparities between development regions, urban/rural, and even at county level, decentralisation has the potential to contribute to the deepening of educational inequalities (Neagu 2005).

Currently a series of decentralising measures have been implemented in financing, as costs regarding the school infrastructure are undertaken by local Councils whereas in co-financing domains schools got financial autonomy and may use their own extra-budgetary resources for boarding schools or extracurricular activities. Since 1999, the global financing as a lump sum based on the number of enrolled students started implementation. The state still retained some responsibilities in granting transport services, meals and hosting, school libraries, clubs, differentiated scholarships, bank credits for students, the possibility of sponsoring some activities etc (Bîrzea et al. 2000).

Education policy aimed at access to education and equal opportunities along the following lines:

1. Especially during the first decade of transition, access to education and equal opportunity measures concentrated on the protection and education of socially disadvantaged children, the protection and education of disabled persons, the education of children from ethnic minorities (with a special emphasis on Roma) and the street children problem.

Among the measures targeting special groups of population, those for Roma have been steady and integrated, as they mixed social, material and financial support with administrative measures based on positive discrimination regarding access of Roma children and youth to higher levels of education. The purpose was to increase school attendance of Roma population and to facilitate their access to higher levels of education. Moreover, another set of measures included appointment of school inspectors, at county level, with responsibilities concerning education for Roma population; allocation of special places to Roma young people in high schools and higher education departments and the launching of study of Romani language (Ministry of Education, Research and Innovation 2009).

2. A separate package targeted the integration in the ordinary system of education of children in difficulty: institutionalized children; children in foster families; adopted children; street children; abandoned children; delinquent children; children partially deprived of family environment. The policy of integration is currently being developed in Romania. School integration of the children with special educational needs is accomplished through the following forms of education: separated special education, partially integrated special education, and full integrated special education.

3. Other programmes concentrated on building or rebuilding infrastructure: school refurbishment, construction of new schools, school transport for pupils in rural areas, equipping schools with computers, providing equipment for distance education offices, connecting to the internet. These were complemented with measures for the organisation of education in disadvantaged areas (rural, isolated, poor localities) with the aim of reducing educational inequalities. Although these measures

aimed at re-launching rural education in the attempt to answer the drop-out and non-enrolment problems, as well as at reducing the disparity in education between urban and rural, generally they did not achieve their initial objectives. In the wake of the recent economic crisis, policy discussion concentrated on budget cuts and closing schools with small number of children, especially in rural areas.

4. Some support programmes were designed for children in primary and secondary education that influenced enrolment rates for children coming from low income families. The 'Milk and Breadstick' programme (for pupils in grades 1–8) and the 'Fruit' programme for pupils in grades 1–8 are universal and funded by local authorities. However, they proved efficient especially for children coming from disadvantaged families. Romania combines family allowances with study grants: the *200 Euros* and the *Money for High-School* programmes subsidise families with low incomes during school year. Also, free textbooks are provided to orphan pupils. There are also scholarships provided to students having obtained remarkable results as well as discounts for students on local public means of transport.

5. Another set of programmes focused on the basic education provision, literacy, adult education, development of the distance education; universities opening towards larger groups of young people and the development of educational forms for adults.

During the recent financial and economic crisis, in 2010, the effect of the economic downturn and the pressure on the public finances became very pronounced and Romania applied salary cuts for public employees in order to restore the budget balance. The reduction consisted in a 25% cut implemented since July 2010, which impacted heavily on teachers' salaries which already were generally low.

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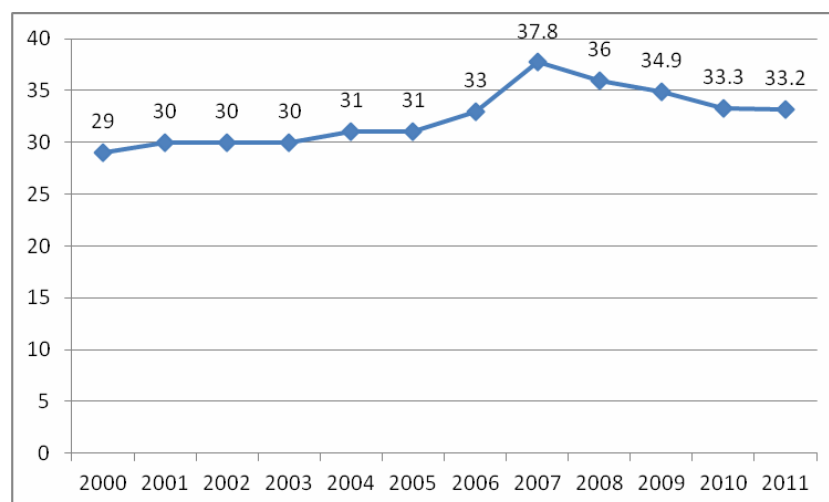
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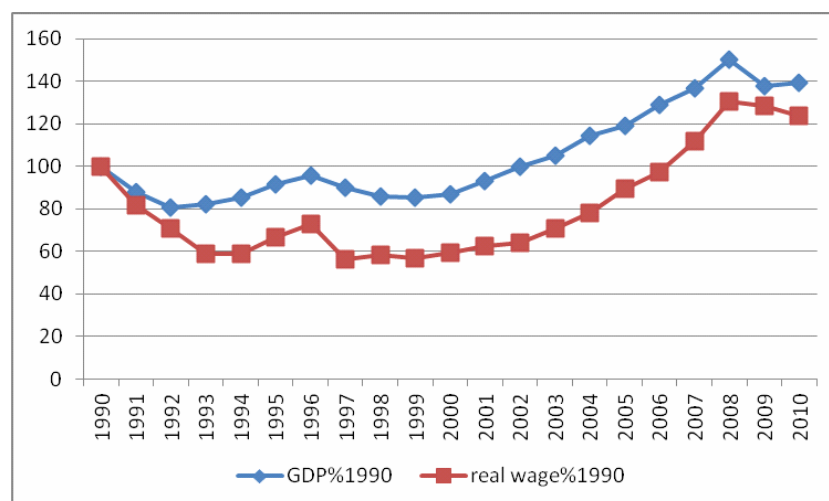
## ANNEX

### FIGURES AND TABLES



Source: Eurostat.

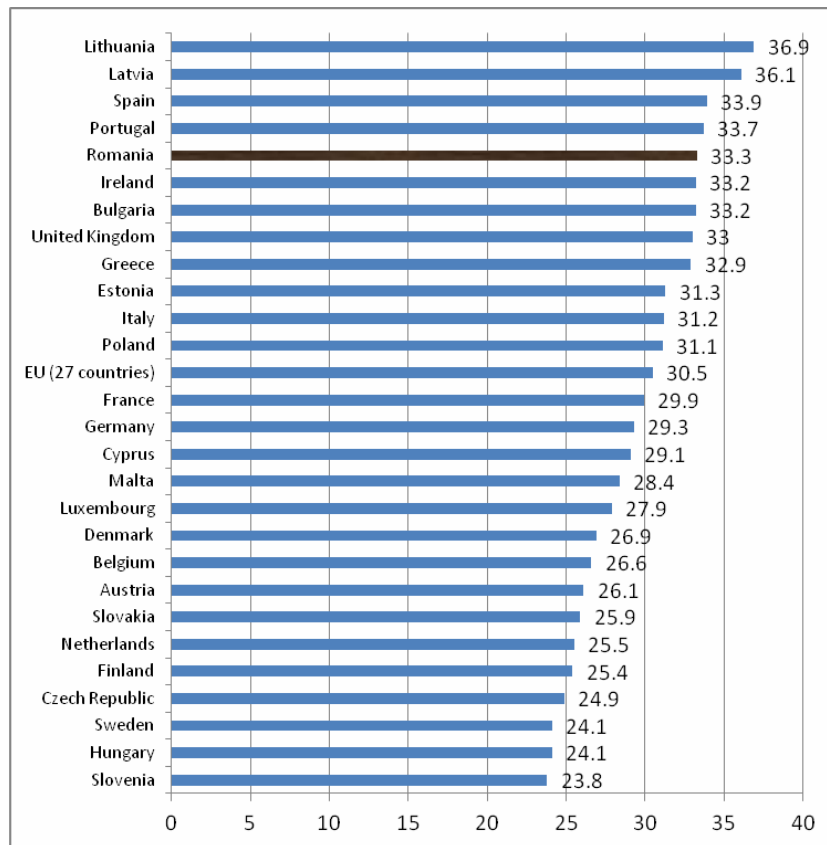
Figure A1. Gini coefficient of equivalised disposable income, 2000–2011.



Source: WDI database; NIS data, Statistical Yearbook, 2011.

*Figure A2. GDP and real wages (the value for the reference year 1990=100%).*

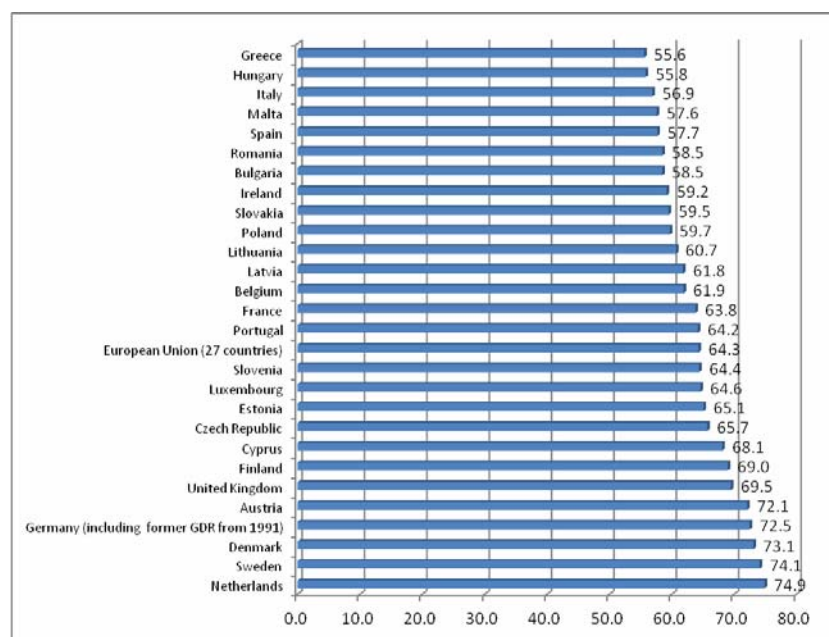
## Annex



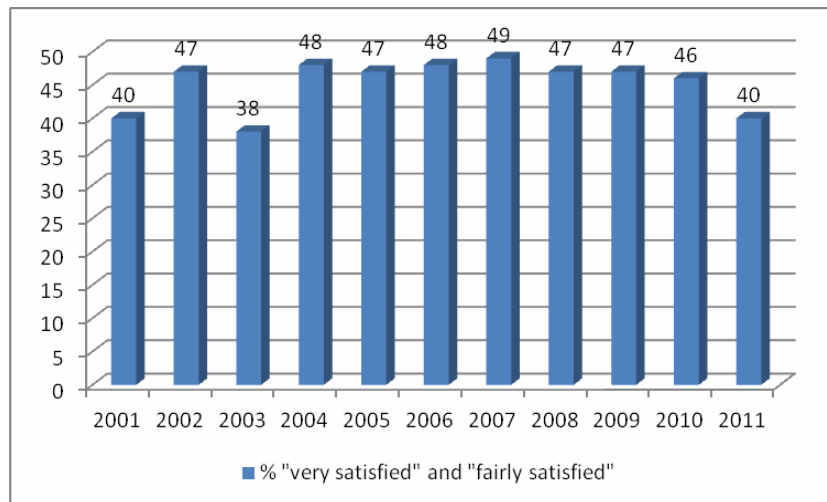
Source: Eurostat.

Figure A3. Gini 2010.

### *Inequality in Romania: Dimensions and Trends*



*Figure A4. Employment rates in EU 2011.*



Source: CC-EB 2001–2004, Standard Eurobarometer 2005–2011 (autumn waves, 2001 spring wave)

Question: On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the life you lead? 1. Very satisfied, 2. Fairly satisfied, 3. Not very satisfied, 4. Not at all satisfied.

Figure A5. Life satisfaction 2001–2011.

Table A1  
Public expenditure

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Education	2.2	2.8	3.6	3.6	3.3	3.1	3.4	3.6	3.3	3.3	3.4	2.9	3.3	3.5	3.5	3.3	3.5	4.3	5.5		
Health	2.5	2.8	3.3	3.1	2.8	2.9	2.6	2.8	2.6	3.5	3.8	3.7	4	4	4.1	3.8	3.7	3.3	4	4.1	
Unemployment			0.3	0.7	0.9	1	1	0.7	1.3	1.4	1.5	1.2	0.8	0.7	0.8	0.8	0.5	0.5	0.3	0.3	0.6
Old age	5.2	6.5	5.9	5.9	5.6	5.6	5.8	5.7	5.4	5.8	6.9	6.4	6.5	7.3	7	7.4	5.9	5.4	5.6	6.5	8.2

Source: Zamfir et al. 2010, based on national sources.

Table A2

Level and structure of incomes by head of household activity status and residence, 4<sup>th</sup> trimester 2011

	% out of total								
	TOTAL incomes (average monthly income in Lei)	Cash incomes.. out of which...	gross incomes	incomes from agriculture	incomes from independent nonagricultural activities	incomes from social transfers	Equivalent of in kind incomes... out of which....	Equivalent of in kind incomes from employment and social transfers	Equivalent of own consumption
Total	884.03	79.7	48.4	3.1	2.3	22.5	20.3	1.7	18.6
employed	1,061.9	88.8	80.8	0.5	0.5	4.8	11.2	2	9.2
farmer	703.9	43.1	5.9	21.3	2.6	9	56.9	0.9	56
unemployed	498.42	80.9	37.5	1.6	3.4	20.6	19.1	2.2	16.9
retired	855.54	76.6	19.3	2.2	0.9	52.3	23.4	1.6	21.8
urban	980.54	91.5	62.9	0.5	2	22.6	8.5	2.1	6.4
rural	767.38	61.4	26	6.9	2.8	22.4	38.6	1.2	37.4

Source: NIS 2012.

Table A3  
Structure of incomes by decile

	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Decile 10
<b>Cash income out of which</b>	<b>46.8</b>	<b>58.1</b>	<b>65.3</b>	<b>72.4</b>	<b>76.2</b>	<b>80.7</b>	<b>84.6</b>	<b>87.1</b>	<b>89.6</b>	<b>93</b>
gross incomes	3.8	15	22.4	31.3	37.3	46.6	53.3	60.9	68.5	74.5
incomes from agriculture	9.2	6.3	5.5	3.5	2.9	2.4	1.8	1.4	1.4	2.1
incomes from independent nonagricultural activities	5	5.6	4.5	4.3	2.7	2.4	2	2.1	2	2
incomes from social transfers	25.2	27	28.4	28.7	29.2	26.1	23.9	19.5	14.8	7.3
incomes from property				0.1	0.2	0.1	0.3	0.2	0.2	0.3
<b>Equivalent of in kind incomes from employment and social transfers</b>	<b>1.4</b>	<b>1.8</b>	<b>2.2</b>	<b>2.5</b>	<b>2.9</b>	<b>3.4</b>	<b>3.8</b>	<b>3.9</b>	<b>3.8</b>	<b>2.7</b>
<b>Equivalent of household production</b>	<b>51.8</b>	<b>40.1</b>	<b>32.5</b>	<b>25.1</b>	<b>20.9</b>	<b>15.9</b>	<b>11.6</b>	<b>9</b>	<b>6.6</b>	<b>4.3</b>

Source: NIS, Statistical Yearbook, 2011.

