

SOCIAL

The 2002 budget triggered labour unrest, but the trade unions have their own agenda and will not necessarily derail the Government. However, there are pockets of poverty like the Jiu Valley where the situation is serious.

TREND: SOCIAL PROTEST AND TRADE UNIONS' MOTIVATIONS

By Sorin Ionita

At the end of November the Romanian Government had to face a sudden wave of public protests by the main trade unions and federations. It was not so much the intensity of protests (not exceptionally high), as their broad base that surprised the analysts: federations representing the industry, as well as public sector unions, with education and health care at the forefront. SAR organized a focus group with union leaders in order to explore the motivations and intentions of the social partners in the near future.

Sources of discontent:

Two main causes were mentioned by virtually all of the union leaders, irrespective of their sector of activity:

- The Government broke the Social Agreement signed with the trade unions at the beginning of its mandate.
- The provisions of the 2002 state budget, which is said to be either too austere or incoherent in some points (for example, in the treatment of arrears of the large state owned companies).

Besides, there are other, more specific issues that concern the unions, like the minimal salary level (deemed as being too low) and the reform of the pensions law, which restricts the extra benefits for special working conditions and raises the retirement age to 65 for men.

The first point deserves special attention, because it is sign for an unwelcome development: over-encompassing social pacts are negotiated and signed even though both partners know they are unfeasible and will not be fulfilled. As it turned out, the unions were perfectly aware that the Government would not be able to implement the social pact, but that it needed it in a delicate moment when the stand-by agreement with the IMF was being negotiated. “It was a carefully orchestrated PR campaign, and everybody knew from the very beginning that the agreement was unrealistic”, admit the union leaders in private. However, they went on with it because this was also “a PR campaign for the unions”, as they candidly admit – that is, the unions need from time to time to take part in broad social negotiations just to be able to show some action to their members and thus preserve their legitimacy.

When asked whether they would sign a social agreement in 2002 if again the Government comes with unrealistic promises, the trade union leaders offered diplomatic answers: in general, it depends on what promises are on the offer – but the general idea is that yes, they would. *They perceive a long-term advantage in being part of the negotiation process, no matter what the results are.* The Government would be well advised to note this. Moreover, the last wave of protests did not occur in August, the deadline for implementing most of the provisions of the Social Agreement, but in October-November, when the draft of the 2002 budget was finalized and made public. Which only strengthens the idea that the distribution of public resources is what really matters. On the other hand, since for the first time after 1990 the budget was submitted to the Parliament within the legal deadline rather than five or six months later, the Government may have an easier life next spring. The recent events serve as a confirmation that in Romania the organized social protest closely follows the budgetary cycle.

How to cope with unions' demands

When union action occurs with such a broad social base as it was the case this autumn, there is a wide variety of problems raised on the public agenda. They can be summarized into two broad categories.

First, reformist policies pursued by the Government trigger the opposition of the stakeholders involved, because most of them fear that they would end up as losers. This is something that happens everywhere in the world, but the scale and the pace of reforms in a post-Communist country make the problem more apparent.

- The unions in the education sector do not like the study fees, and in general resent the idea of schools and universities having to raise funds themselves, on top of the public money coming from the budget. Equally, they oppose decentralization in primary and secondary education, because once the responsibility is transferred to local Governments, the coordination of actions by union confederations based in Bucharest will be more difficult. In general, trade unions do not want to discuss with anybody else than the cabinet members and the top officials from the Ministry of Finance (they even gave names of possible partners of dialogue). They oppose in principle any kind of rationalization on economic grounds (consolidation of schools, hospitals, etc).
- The current PAYG (“pay-as-you-do”) state pension system is a time bomb, and needs an urgent overhaul, plus the introduction of a private component. Everyone agrees that even the current meager level of benefits is unsustainable, the retirement age is too low, and the early retirement and the handicap pension schemes are abused.
- The speeding up of privatization is a must, but social concerns are high in the large state-owned companies. It is understandable when trade unions leaders try to protect their members, but sometimes they go much beyond their mandate and meddle into the management process (see the Focus section in this issue on the Jiu Valley mining area), derail privatizations (*Semanatoarea* case), or at least try to do so when they are part of lucrative arrangements to siphon off funds (*Sidex*).

Even though claims like these from the unions are unreasonable, there is no other way for the Government but to keep the social partners engaged in negotiations, while gently pursuing its policy. Contrary to the common belief, the established trade unions in Romania are not very strong, and the only alternative to the organized social protest are the spontaneous urban riots. On top of that, the Government should do a better job in explaining its reform plans to the general public, who is presumably the main beneficiary, and hence rally the silent majority in support of terminating vicious social allocations.

Second, the trade unions raise sometimes reasonable points that deserve closer consideration, even though their proposed solutions are not always entirely correct.

- The salaries in most of the public sector are very low, which discourages professionalization and undermines the policy capacity of the Government. The budgetary constraints are harsh and the current agreement with the IMF to cap public spending actually enforces these constraints. But it is the fault of the successive Romanian cabinets that they have never had a real strategy to restructure the state apparatus and rationalize expenditures. Across-the-board staff cuts were implemented (or discussed) from time to time, irrespective of the social mission or the performance of particular public agencies, just to be subsequently reversed through new hirings. New public bodies pop up everywhere and very few, if any, are dismantled when they complete their mission. Small wonder that the money for salaries grow thinner every day. An awkward and poorly targeted food stamps scheme reached national proportions and became a means for public and private employers to avoid taxation – which is one more example of incapacity in the Romanian Government to set social priorities (a thorough analysis of food stamps will be part of the next issue of EWR). Urgent action is needed in order to fix the problem and take this stick from the hands of the unions.
- Faced with the alternative of high taxes in order to maintain the current level of social service provision, or lower taxes plus a reduction of social benefits, the Romanian unions, unlike their Western counterparts, do not have a clear position – high taxation is very unpopular these days in post-Communist societies. Their leaders agree that businesses should come first, that SMEs must have a favorable environment for years to come and that Romania needs foreign strategic investors. But how could the circle be squared, nobody knows for sure. The Government should explain honestly to the public this dilemma and try to reach a compromise with social legitimacy. The current official discourse, hinting at miraculous formulas to combine low taxation *and* high public expenditure, is merely wishful thinking. It is possible that in the long run the fiscal reform may lead to more revenues with lower taxes. But this is far from certain anyway, creates unreasonable expectations amongst the population, and give the unions new lines of attack.
- When a large state owned company is privatized with a strategic investor, it is better to get the unions involved from the very beginning in the process and have them sign the social provisions of the contract. This is one of the things that the unions now request. We have seen in the last years that a privatization process, which is relatively open, makes the final results more stable and avoids open conflict. Take *Resita* as a negative example, and *Sidex* as a positive one. Even when the grace period negotiated expires and the new owners are allowed to make layoffs, the situation is much less dramatic since the process is predictable and the Government can avoid being involved.

The whole idea that painful staff adjustments, privatizations and reallocations of social resources have to be kept secret from trade unions is counterproductive. The social partners may prove obnoxious or poorly informed, and slow down the policy-making agenda. *However, in a democracy the process is at least as important as the results.* There are no other ways to promote social learning and avoid open conflict but transparency and the inclusion of stakeholders in the decision-making structures.

Problems in the trade unions' structure

The Romanian union confederations have not learned yet how to play their role in normal, three-party negotiations. Actually, there have been very few occasions when the owner of a company is present and the state is just a mediator, as the theory says. In fact, most of the labor conflicts and negotiations in Romania go on between the state (as owner) and the unions, whilst the labor organizations represent almost exclusively employees from the state sector. The Government is a very special owner, because the larger the company in question, the more the general political considerations tend to prevail over the local economic or even social ones. Unless the heavy industry is privatized, the state will always be in the uneasy position of player and referee, and the unions will exploit this opportunity to put Governments in defensive.

While there is a good for Governments and unions alike to sacrifice the geometry of ideas in order to have an agreement of whatever sort, the practice of signing social pacts with unworkable provisions should not be pushed too far. In the end, it might de-legitimize both parts and the disgruntled workers may resort to violent action, by-passing the channels of communication controlled by the established union organizations.

Finally, it would be good for the union leaders to resist being coopted by the ruling party, whichever that is. If unions begin to be perceived as cadre schools for the political parties, their legitimacy will be badly compromised. The argument goes the other way too: the Government should not deliberately attempt to colonize a labor movement, which is anyway feeble, and barely in control of its functions. Without a credible social partner to talk to, it will be much more difficult to diffuse social tensions when they arise.

FOCUS: SOCIAL PROBLEMS IN THE MINING AREA JIU VALLEY²⁰

Jiu Valley, a mining area with a century-old history of industrial problems and violent labour protest, has been a center of social unrest after 1990. The state-owned mining companies (regies autonomes) located there, flagships of the Communist industrialization, have faced economic hardships ever since the old regime collapsed more than one decade ago. Every time when the Governments tried to restructure the mining sector or the salaries arrived late, the trade unions reacted strongly, sometimes crossing the borders of legality (the “mineriads”). This behaviour made the whole region appear as closed and unfriendly to business, and even though it was declared a special industrial zone in 1998 – and thus under a special tax treatment – few companies tried to benefit from these exemptions by setting up shop in the Jiu Valley. The area, therefore, has remained mono-industrial, tied almost exclusively to the ups and downs (but mostly downs) of the mining industry.

In 1997 the former center-right Government tried to tackle the situation by implementing a broad restructuring plan and massive personnel cuts. In less than two years 18,343 miners were fired, with severance payments up to the equivalent of a two-year salary. Roughly 87% of them were laid off in a huge wave in the autumn of 1997, without a reconversion program in place to supplement the financial compensation package. In spite of the stated interest of the international assistance agencies, who targeted with programs either the unemployed miners or the small private entrepreneurs, nothing changed much in the general picture of a depressed region offering little employment or business opportunities.

Unemployment – decreasing officially, increasing in the underground

The overall population of the Jiu Valley in 2001 is of 164,000. There were 10,672 registered unemployed persons in November of this year, and the figure has been going down for most of this year – not because the economy is picking up, but because for many of the unemployed the legal support period comes to an end. At the beginning of November, the benefits were terminated for 6,039 former workers, and these are only the officially

²⁰ For the purpose of this material SAR’s team discussed with the Petrosani local government, Hunedoara prefecture, the managers of various assistance programs located in the Jiu Valley, the Petrosani police and the representatives of the National Mining Company and the unions.

registered with the local labor offices. It is believed that the real figure is at least twice as high.

As a matter of fact, with the fall of 2001 begins a very difficult time, when the massive tide of miners laid off in 1999 runs out of unemployment and support benefits. The official numbers are deceptive, because of the informal unemployment and the fact that many persons are transferred on the welfare support lists of the local Governments. There is no evaluation available on how many of the families used to rely on a salary from a mining company.

Fig. 1. Welfare and emergency support from local Governments, Jan-Jul 2001

Town/City	Welfare support		Emergency support	
	Number of recipients	Amount (ROL)	Number of recipients	Amount (ROL)
Aninoasa	78	248,333	233	544,500
Lupeni	368	1,374,768	1072	2,580,500
Petrila	233	177,794	268	738,000
Petrosani	367	1,490,337	594	1,658,500
Uricani	123	444,899	419	979,000
Vulcan	340	1,202,012	1061	2,637,500

According to the data available, the municipalities most in distress are Vulcan and Lupeni, where the number of persons assisted reaches almost 10% of the total population and makes the situation financially unsustainable in the long run. In Petrosani, the unemployment rate in July 2001 was at 43%.

Fig. 2. Unemployment in Aug 2001.

Town/City	Unemployed – registered and paid	Paid Unemployed	Professional reintegration aid receivers	Welfare support	Assistance receivers based on art. 45 OUG 98/1999	Requests for workplace
Petrosani	3135	623	213	938	252	1109
Lupeni	2964	365	190	429	0	1980
Petrila	2077	278	86	409	101	1203
Aninoasa	690	76	5	52	5	552
Vulcan	2312	325	82	425	2	1478
Total	12 178					

Conclusions:

Although job creation was declared top priority in the area, the unemployment rate has stabilized at a level about five times higher than the national average.

The official data that show the unemployment going down ignore the situation of those persons who drop off the unemployment support program and gave up looking for a job. Their number is estimated somewhere between 6,000 and 12,000 and, though technically speaking they are no longer part of the labour force, their situation is no less concerning.

Long-term unemployment went up as a share of the total unemployment, since the only sources of income remain the welfare support from local Governments and the seasonal jobs that do not offer formal employment and social benefits.

Local Governments are barely able to cope with the social problems

Petrosani, the largest municipality in the Valley, and hence the place with the best development opportunities in the area, can serve as a best-case scenario

Fig. 3. The number of inhabitants in Petrosani

Year	Inhabitants
1992	52 390
1995	53 010
1997	53 662
1998	53 195
2000	50 586

for the social and economic trends. If Petrosani cannot cope, the situation should be definitely much worse in other, smaller communities.

As shown in Fig.3, the variations in the number of inhabitants are within normal margins and the decrease in 2000 is insignificant. The hypothesis that the miners emigrated massively to other regions is not confirmed, at least in

Petrosani. Currently about 30% of the population lives on unemployment, welfare or emergency support. The last two forms of payment represent a heavy burden for the municipality, since the main taxpayer at the local level, the National Coal Company, has outstanding debts of more than 40 bil. lei (USD 1.3 mn.). There are genuine fears that, once the new law of minimal income becomes applicable, the mandated social expenditures will shoot up and push the local budget into bankruptcy.

Criminality:

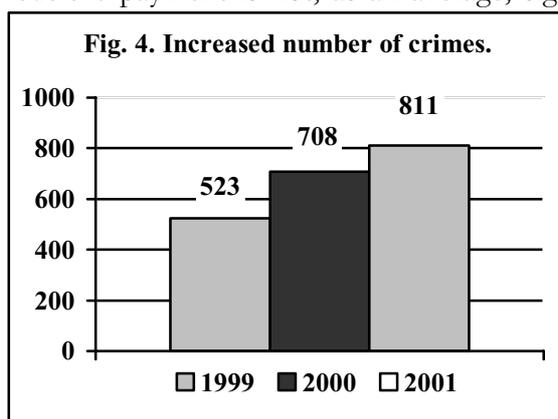
The total number of crimes investigated in the first nine months of 2001 went up compared to the similar periods of the last two years. Persons without occupation commit almost half of the crimes. The increasing criminality

prompted the deployment of a civil guards unit and a *jandarmerie* unit from Deva, to back up the 120-strong local police force.

Conclusions:

- According to the international assistance programs, the local Governments are the main employers locally

- The local Governments can offer seasonal jobs during the summer, but the payment is not, as an average, significantly higher than the welfare



benefits, and therefore it is not stimulating enough

- The criminality is on the rise and there are no programs to address this problem

- The enactment of the law of minimal income will increase the social security budget at the local level about four times (in Petrosani); the

local Governments do not have the funds to cover this increase.

Labor reconversion: new jobs are too expensive

The high unemployment in the Jiu Valley has made job creation a top priority in every program implemented in the area. Although there were various attempts to develop the entrepreneurship and update the professional skills through training programs between 1997 and 1999, they have been largely ineffective. Only 3% of the newly unemployed and 6% of those still

Fig. 5. Jobs created in the second half of 2001.

	Planned 2001	Aug	Sept	Oct
Petrosani	174	1	54	55
Vulcan	45	0	6	6
Petrila	13	0	5	5
Aninoasa	37	0	20	20
Lupeni	45	0	10	10
Uricani	36	0	0	0

employed by the National Mining Company enrolled in the training programs. In 1999, 522 persons attended the courses organized by the local labor offices, but only 151 were unemployed and only 94 of them graduated. After four of the six series of reorientation courses organized in Petrosani, none of the unemployed

persons who attended had managed to find a job in the new profession. Four special workshops were held at the request of companies who subsequently broke their promise to hire the trainees.

Overall, in 1997-98, 251 unemployed enrolled in the reconversion programs and 171 graduated, but only 21 found work. Things have not gone better in 2000-01, when the success rate is estimated at less than 20% in courses that try to anticipate future needs on the market. The “community work services” organized with the support of the World Bank offer only a handful of jobs (Petrosani 210, Lupeni 190, Vulcan 126, Petrila 160, Aninoasa 130), and all of these are just temporary jobs.

The active measures to combat unemployment have yielded disappointing results, all in all, both in terms of the number of jobs created and costs per new job. There are many assistance programs targeting the Jiu Valley, which are poorly coordinated at best: the facilities as an industrial zone, the assistance projects through the Regional Development Agency-West, National Development Agency, the Agency for Rebuilding the Mining Areas or the revolving funds allocated to the Hunedoara county for micro-credits. But new jobs failed to appear in the numbers forecasted (Fig. 5).

The Phare Program of the EU also made available about 10 mn. Euro with the purpose of rebuilding the region economically and socially. The sum was divided between two components:

- MARR Grant Fund, with 6 mil Euro for Jiu Valley and Gorj in grants for updating the infrastructure and active labour-market measures. 2,650,000 Euro were absorbed in the Jiu Valley in 34 projects and 200 jobs were created, which means an exorbitant cost of about 13,000 Euro per job. True, most of the funds were swallowed up in overdue infrastructure and public services rehabilitation. But the new jobs were also an objective and the performance in this respect was abysmally low.
- SME Loans and Grants, with 4 mil Euros run through Banca Comerciala. The bank finally approved only 6 projects because the standards were high and the applicants were not able to come up with appropriate collaterals.

Conclusions:

More than 50% of those who enroll in reconversion courses are women; they also have better chances to find a job, given the professions they pursue: salespersons, textile industry operators, etc. For the time being, it looks like the programs are more efficient for them than for the prime target group – former miners.

- There is still no assessment available of the long term effects of the subsidized credit schemes, but it seems that not all the firms who

hired unemployed because of the program incentives will be able to maintain them after the subsidies run out; this will push up even more the costs per new job created with the help of this scheme.

- The jobs created through subsidies and tax exemptions are expensive.
- Most entrepreneurs from the Jiu Valley cannot meet the guarantees requested by the banks, according to the banking regulations, and hence the lending programs become almost useless.

Labor conflict: the unions are too strong

Even though there are currently no arrears in the payment of salaries, there are perpetual tensions between the company and the unions. While the management has been in continuous changes, the Unions' League has consolidated its position. The company's directors blame the collective contract signed in May last year, which block crucial management decisions. Employees who do not belong to the League and are displeased that it speaks in their name have attacked it in court. Even more interesting, some managers of the company are also union members and sign documents issued by the League against the management.

There are provisions in the collective contract limiting the economic decisions in the company:

Art. 27 – The company, notified by the unions, must reprimand those who denigrate, slander, or assault physically the leaders of the Unions' League.

Art. 67 – The hiring of any person should be made only with the consultative approval of the unions.

Art. 79 – The unions should take part in organizing any kind of professional evaluation in the company.

Art. 84, 87 – The vice-president of any evaluation commission who examines personnel with the purpose of hiring, firing or promoting, should be the representative of the union

Art. 97 – The approval of the union is necessary for any kind of transfer

Art. 99 – Nobody can be laid off without the prior approval of the unions

Art. 203 – In each subsidiary a joint management-union commission should be set up for hiring any kind of personnel.

Conclusions:

The contract in its current form allows the unions to intervene and block managerial decisions that are normally beyond their area of competence.

There is no interest and support from the unions for the miners whose jobs were terminated by collective restructuring.

The unions may resort to industrial action (strikes) if the company tries to bypass some provisions from the 2000 collective contract.

General recommendations:

Seasonal work seems to be the only source of income in the area. Since the costs of a new permanent job are very high, the social protection programs should rely more on temporary work:

- the differential between the salary and welfare benefits should be larger, so that working really pays off;
- and those who worked in temporary jobs should be allowed back into official unemployment.

All these would help remove part of the current burden on the local Government budgets, at least during summer, which is important once the law of minimal income becomes effective in January.

A guarantee fund for small credits should be set up, in order to make the lending schemes more accessible to local firms and make the banks more confident.

The central role played in the Jiu Valley by the National Mining Company should be eliminated. NMC is not only the main employer (and debtor), but also a concentrator of power, formal and informal, as the most important institution in the region. An institutional alternative should be set up in order to diffuse the influence of NMC – an university (but not mining engineering), a business center, a tourist center or any other major public investment. This would also diminish the control that the Unions' League exerts locally, which is felt in many domains unrelated with the mining sector.

The negotiations of the collective contract should begin much earlier than the deadline of April 1st 2002, so that they are not conducted under time pressure. More breathing space would perhaps create opportunities for the management to persuade the unions that the current provisions are too restrictive, damaging the profitability of the company. If the negotiations start late and are held in a haste, the union might resort again to pressures and strikes in order to preserve their privileged position.