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**IS NO EMPLOYMENT BETTER THAN SELF-EMPLOYMENT? THE
STORY OF HOW ROMANIA MANAGED TO CREATE A CLASS OF
'INVISIBLE' AND FORGOTTEN WORKERS**

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Is no employment better than self-employment? The story of how Romania managed to create a class of ‘invisible’ and forgotten workers

Luana Miruna POP¹

Abstract

Romania has been, for the past decade, not only the country with the highest in-work poverty among the European member states, but - unlike most European member states - also a country with a steadily growing welfare polarization of the working force. The paper aims to explain why, after more than a decade of fine-tuning of labor market, fiscal and social policies, Romania still finds itself in this situation. Despite constant improvements over the past 12 years in the welfare indicators of the overall employed population, the gap between employees and self-employed widened. The paper documents the increasing differences in exposure to poverty and social exclusion between the two segments of the employed population and points out to the mix of factors responsible for this development. Unlike most of the European countries, where a certain gap between employees and non-employees is the result of the flexibilization of the labour market, thus of the increase in atypical and non-standard employment forms, in Romania this appears to be rather the result of a mix between a unique inherited structure of employment and an inadequate package of social and fiscal measures, which kept and further pushed self-employed into informality. Thus, contrary to other European countries, which face the problem of how to better protect workers in new forms of employment, Romania is still searching for a policy solution that would allow for both the existing self-employed to become ‘visible’ in a formal economy and the diversification of employment forms. Finally, the paper explores the possibilities to reverse the current trend.

Keywords: Polarization of the employed population, self-employment, social protection of the working force, fiscal policies, employment structure.

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Introduction

The article aims at explaining why, after 12 years since Romania adopted a series of changes to address the effects of the 2008-2009 economic crisis, and despite constant improvements over this period, Romania still has the highest in-work poverty, material deprivation and social exclusion across the EU member states.

The starting point of the analysis is the observation that there is a significant division among the employed population in terms of their wellbeing, and that this division is determined by the status of employment. A closer look at the dynamic of welfare/poverty indicators among employees, on the one hand, and the self-employed, on the other hand, reveals a considerable gap between these two categories, which widened steadily since 2010. This makes Romania unique among all other EU countries, as the contrast between employees and self-employed is not only more pregnant compared to other EU countries, but the observed trend regarding the deepening of the gap between the two categories stands in opposition to the EU developments.

Thus, explaining the high in-work poverty in Romania requires redefining the problem and understanding the roots of the widening gap between employees and self-employed. While in most of the European countries, a certain gap between employees and non-employees was the result of the flexibilization of the labour market, of the increase in atypical and non-standard employment forms, thus of a certain modularization of work, in Romania, the diversification of employment forms was rather marginal in accounting for the precarity in living conditions of the self-employed. In Romania, the gap appears to be rather the result of a mix between a unique inherited structure of employment and a social protection and fiscal system which largely ignored self-employed and even pushed these into informality. Thus, contrary to other European countries, which face the problem of how to better protect workers in new forms of employment, Romania is still searching for a policy solution that will allow for both the existing self-employed to become 'visible' in a formal economy and the diversification of employment forms.

Despite some timid fiscal and social protection reforms, the current legislative framework still does not provide any positive incentives for many of those informally employed to switch to formal employment, as the costs associated with 'buying' visibility and social protection are still too high for these. Even though during the COVID-19 pandemic Romania adopted, for the first time, social protection measures directly targeting non-standard workers and self-employed, the polarization of the employed population continued to increase.

Finally, the proposed explanation aims at putting the social implications of the deepening division of the workforce into a different light and revealing the effects of Romania's missed opportunities to articulate adequate policy responses to a distorted employment structure and a changing economic environment on the

wellbeing of the employed population. The article further proposes some directions for intervention to improve the chances to reverse this trend.

The first section will define the paradoxical situation in which Romania's employed population finds itself and its unique character compared to other European countries. It will also briefly explain why poverty/welfare indicators are used to assess the wellbeing of the employed. In contrast to other approaches to the wellbeing of self-employed, which focus on the *precarity of work and prosperity*, the proposed approach focuses on the *precarity from work* (Blake *et al.*, 2021), on the risks of poverty and misery.

The second section will briefly review the main characteristics of the employed population and the dynamic of the employment structure over the past twelve years (2010-2022) as a means to contextualize the analysis and identify the structural roots of the gap in wellbeing between employees and other categories of employed.

The third section describes the gap between employees and self-employed by using an indicator that reflects the relative difference in exposure to poverty and deprivation risks and captures the dynamic of this gap.

The fourth section proposes a possible explanation for the increasing polarization in welfare among the employed population by analysing the impact of the major social, fiscal, and labour market reforms undertaken since 2010 and of the institutional and administrative capacity to carry out social reforms.

Finally, the paper explores some strategic directions to reverse the current trend.

The novelty of the proposed approach resides in the slightly different way of looking at the wellbeing of the employed population through the lens of the differences and gaps in welfare indicators. For this purpose, an indicator reflecting the relative differences in welfare indicators is used throughout the paper. Stressing the *precarity from work* instead of the *precarity of work* allows the articulation of an explanation which focuses mainly on the fiscal and social policy reforms rather than on the labour market reforms and legislation.

Stating the problem: the struggle to see what is in front of our nose¹

An impressive amount of literature was generated over the past 20 years to identify and define the new employment forms which emerged as a result of the flexibilization of the labour markets, and, further, to address the challenges posed by these to the social protection systems across Europe, including Romania (Addison, & Surfield, 2009; Hipp *et al.*, 2015; Ilie, & Preoteasa, 2017; Behrendt *et al.*, 2019; Tamayo, & Tumino, 2020), and especially under the extraordinary social and economic circumstances generated by the COVID-19 pandemic and the Russian-Ukrainian war (Jerg *et al.*, 2021; Pop, 2021a; De Becker *et al.*, 2022; Schoukens, & Weber, 2022). These studies also provide detailed and comprehensive

literature reviews on atypical forms of work and the precarity of work, as one of the most used concepts in relation to the newly emerged employment forms (Blake *et al.*, 2021). Precarity of work links the discourse on atypical work to politics, proposing strategies to address not only the social protection challenges but also the rights associated with stability and safety of atypical work forms (Neilson and Rossiter, 2008). As a result of all the debates around atypical employment forms and their effects on the content of the work and workers' wellbeing, in 2019 the European Council formulated a recommendation on the access to social protection for workers and the self-employed (EC, 2019), and in 2021 ILO launched a policy resource package for extending social security to workers in the informal economy (ILO, 2021).

Unlike other European countries, in Romania, the diversification of atypical employment forms was marginal and, non-standard employment forms were very slow to emerge due to the fiscal and labour legislation which, contrary to its intentions (Guga, 2016), rather created disincentives for the emergence of atypical and non-standard employment forms, while suffocating those who already were already in the labour market.

While the proportion of employees among the employed population is lower compared to other European countries, most of these are in standard employment forms, whereas non-standard employment forms (part-time contracts, temporary contracts) are marginal (Ilie, & Preoteasa, 2017; Pop, 2021a).

Further, in Romania, other atypical employment forms besides seasonal work in agriculture and construction, self-employment in subsistence agriculture and the unpaid work of family members in agricultural activities or small family businesses (short-term contracts, piecemeal work in the gig economy, platform work, home-based/remote work, temporary agency work) were slow to emerge compared to other European countries. Precarious forms of rural employment (Preoteasa, 2015; Ilie, & Preoteasa, 2017; Ilie, 2021) and bogus self-employment were the main forms of atypical employment, especially in the aftermath of the 2008 economic crisis (Williams, & Horodnic, 2017; Pop, & Urse, 2017; Pop 2021a). In addition, a high proportion of the employed, both employees and self-employed, was working informally or quasi-informally in sectors affected by seasonality; the informal/quasi-informal sector in Romania was approximated at 37% of the labour force in 2011 (Voinea, & Albu, 2011²). However, the COVID-19 pandemic increased the need to address these employment forms, putting additional pressure on the governments.

Thus, working outside an individual work contract³ in Romania is associated with activities related to a subsistence agriculture, traditional trades/crafts, domestic work and with activities traditionally affected by seasonality as those in the construction sector or hospitality industry.

Many of the policy analyses (Pop, & Urse, 2017; Pop, 2018; World Bank, 2018) and articles (Ghenta, 2017; Preoteasa, 2015; Preoteasa *et al.*, 2017; Ilie,

2021) which point out to the critical situation of the self-employed population in Romania, also attempt to identify some of the factors which are associated with this precarity in living conditions. The risks of poverty, material deprivation and social exclusion have been preponderantly associated with three factors: (a) precarious work among rural residents, preponderantly occupied in subsistence agricultural activities (Preoteasa, 2015; Pop, 2018), as a result of an inherited employment structure (Ilie, 2021) or of lacking economic and educational opportunities (World Bank, 2018), (b) low level of educational attainment (Ghenta, 2017; Ilie, & Preoteasa, 2017; Pop, 2018) and (c) other vulnerabilities on the labour market, as being either too young or too old, Roma (Ilie, & Preoteasa, 2017) or a person with a disability (ANDPD, & World Bank, 2020).

The increase of the informal sector and the impoverishment of these workers was also the direct effect of inadequate policies or the lack of policies addressing the challenges for workers who were not employees. The failure to address the challenges of an economy which was undergoing an accelerated alignment process to the European and global economic realities threw many self-employed into an underground economy, depleting them of rights and social protection and rewarding work with uncertainty and inadequate pay.

Thus, for most of the European countries, it makes sense to place the focus of the debates on atypical work on regulations regarding the content and quality of work, and on establishing rights for workers to increase shared prosperity for all employees in a rapidly diversifying economic landscape. Unlike these, for Romania the focus of the studies on atypical work needs to shift towards solutions to create incentives for getting self-employed and employees out of the informal or quasi-formal sector, and to do this without impoverishing them, thus creating the premises and opportunities for stability and prosperity.

Hence, the decision is to focus on risks of poverty and 'misery', on precarity from work rather than on prosperity and precarity of work. The focus on the precarity of work diverts the attention from wellbeing to rights and shifts the emphasis of the required intervention from policies to politics (Neilson, & Rossiter, 2008). The focus on poverty is also supported by the studies cited by Tamayo and Tumino (2020), showing a widening poverty gap between non-standard and standard workers, with a high heterogeneity across countries among the poverty rates of non-standard workers. Further, a 2017 study on income and performance of social policies in Romania (Ilie, 2017) points out the fact that being an employee is associated with a lower risk of poverty, including the risk of severe poverty, and a higher positive impact of social transfers on the person's welfare. The poverty indicator approach will thus also allow to assess the differential impact of social transfers on various categories of employed.

Romania has been over the past twelve⁴ years the country with the highest in-work poverty rates⁵ across the EU member states and the Romanian employed population scored worse than its European counterparts, with substantially lower

income levels, higher at-risk-of-poverty, material deprivation⁶ and social exclusion rates. The median income of the Romanian employed population was, in 2021, 3.6 times lower than that at the EU level, and the lowest across all European countries⁷. Similarly, the risk-of-poverty (AROP)⁸ among the employed population has been the highest across EU over the past decade. In 2021, 15% of all employed in Romania were living at-risk-of-poverty, a proportion that was 1.7 times higher than the EU average. The same holds true for the severe material deprivation rate which was, in 2021, still three times higher than the EU average and the highest across all European member states.

However, the overall situation of the Romanian employed regarding their risks of poverty, material deprivation and social exclusion improved over the past decade. Many policy reports outline the positive developments over the past decade in the overall situation of the employed population (World Bank, 2015; Romanian Government, 2022). The statutory minimum gross wage increased by 430% in nominal terms between 2010 and 2022, with a slightly lower increase in the statutory minimum net wage of 331%. Consequently, between 2010 and 2021, the median overall income level of the employed population increased by 157% and the risk of monetary poverty decreased by about 15%. Further, the severe material deprivation rate, respectively the material and social deprivation rate decreased more substantially, by 55%, respectively 43%. The overall improvement in the welfare situation of the employed is also reflected in the increased affordability to carry out certain social activities. Thus, the proportion of those who cannot afford to participate in leisure activities, get-together with friends or family at least once a month, replace worn-out clothes, spend money for themselves, or cannot afford internet connection for personal use at home decreased significantly⁹. Finally, the risk of poverty or social exclusion (AROPE), a combined indicator of monetary poverty, material deprivation, and work intensity within the household¹⁰, decreased between 2015 and 2021 by 31%.

The improvement rates have been far higher compared to the EU average for all welfare and poverty indicators, less the material and social deprivation rate, which decreased about the same as the overall decrease at the EU level. The median income level of the employed population increased by a seven times higher rate compared to the overall EU population, and the risk of monetary poverty decreased by 15%, compared to a reversed trend at the EU level. Finally, both social material deprivation and at-risk-of-poverty or social exclusion indicators improved at a double rate compared to the EU average.

Thus, if looking at the overall picture, the monetary and material situation of the employed, even though it remains the worst across Europe, improved significantly during the past decade and at higher rates compared to other EU countries. Most of the studies mentioned above, which assess the situation of the employed population in Romania, point out to these positive developments and relative improvements in the situation of the self-employed (Preoteasa, 2015; Ilie, & Preoteasa, 2017; Ilie, 2021). Some other studies emphasize, by contrast, the differences between

rural and urban development and their impact on shared prosperity (World Bank, 2018) or out-migration (Mitică *et al.*, 2019), but without further acknowledging the deepening of these differences and their roots.

Thus, the focus on individual/group vulnerabilities or, alternatively, on the inequalities between rural and urban areas divert the attention from the high and increasing polarization between employees and non-employees, both as an explanation for the high in-work poverty, social and material deprivation, or social exclusion and as a hint for searching the direction for corrective policy interventions.

However, despite these positive trends which reflect a mainstream reality, the monetary inequality remains extremely high over the entire period, among the highest across the EU, signalling a polarization in the welfare of the population. A closer look at the main poverty and welfare indicators points to a polarization of the workforce, explaining why Romania continues to rank first regarding in-work poverty while the wages are spiralling. Employees gained, over this period, the upper hand; an important and steadily widening gap in monetary and material welfare, current and prospective social protection entitlements, and opportunities. The 'employed except employees' were mostly forgotten, as the fiscal and social legislation only allowed these to access entitlements while increasing the probability for these to fail to fulfil their fiscal obligations. The precarious situation of the Romanian employed is the reflection of the significant impoverishment and material deprivation of the non-employees, both self-employed and unpaid contributing family members (Pop, 2018).

Section 2 will provide a short overview of Romania's still distorted structure of employment and of the profile of the self-employed and unpaid contributing workers, which reveals the inherited structural division, the constrained choices of those taking up self-employment and the limited diversification and atypical employment in Romania.

Challenges faced by Romania differ to some extent from those of the Western European economies. Structural factors such as underdeveloped rural economies, lack of adequate reforms in agriculture, low administrative capacity, especially at the local level, and last, but not least, unevenly developed reforms in the field of social security (Pop, 2017; Pop, 2018; Pop, 2023) provide a specific context, which results in new challenges because of the overlap between emerging employment forms and the inherited, already divided employment structure. Thus, Romania is faced with the necessity to address the issues of the past while, at the same time, addressing the issues of the present and near future.

The fact that during the past twelve years governments avoided to address both sets of challenges, only deepened the polarization of the workforce. The emigration of a part of the workforce, the less obvious passage of a segment of the non-employees into the realm of the unseen, and the increase in inequality are some of the consequences. High levels of monetary inequality, respectively of

inequality of opportunities represent a significant threat for a country, as ‘societies that are more equal produce more sustainable economic growth and demonstrate greater political stability’ (Stiglitz, 2020).

Brief overview of the main characteristics of the Romanian workforce

This section aims at providing a brief overview of the dynamic of the employment structure, of the main changes in the size of the workforce and of the characteristics of the two segments which are the focus of the proposed analysis: the employees and the non-employees, with the latter one including both the self-employed and the unpaid contributing family workers¹¹. While not claiming to provide a detailed picture of the evolutions which took place over the past decade, this section will point out to some of the processes which are most relevant for the proposed explanation of the high and increasing polarization in the wellbeing of the workforce.

More detailed analyses on these topics for Romania can be found in a series of research/ policy papers (Preoteasa, 2015; Guga, 2016; Pop, 2018; Pop, & Urse, 2017; Guga 2019) and academic articles (Ilie, & Preoteasa, 2017; Ilie, 2021). All these provide a more coherent and complete picture of the workforce in Romania.

Changes in size and structure of employment

The employment structure in Romania presents some particularities compared to the overall employment structure of the EU space¹². During 2010-2020, the proportion of employees in Romania was significantly lower compared to the EU average, while the proportions of own-account workers (i.e., self-employed without employees) and unpaid contributing family members were significantly higher (Table 1). However, over the past 12 years, the differences faded; in 2021, the structure of Romanian employment approximated the structure at the overall EU level, with a still persistent distortion among young employees (15-25 years). In only one year, during the pandemic, the structure of employment changed radically, as the number of non-employees decreased drastically, more than it decreased over the previous ten-year period. Thus, in 2021, the number of own-account workers decreased by 32% compared to 2020, while the number of unpaid contributing family workers decreased by 60%.

Table 1. Romania and EU: Employment structure, population 15 to 64 years

	EU28/27*				Romania			
	2010	2019	2020	2021	2010	2019	2020	2021
employees	84%	86%	86%	86%	68%	78%	78%	85%
employers	4%	4%	4%	4%	1%	1%	1%	1%
self-employed without employees (own-account workers)	10%	10%	9%	9%	19%	14%	14%	10%
contributing family members	1%	1%	1%	1%	12%	7%	7%	3%

*EU 28 for 2010, 2019 and EU27 for 2020 and 2021

Data source: Eurostat database, LFS, lfsa_egaps

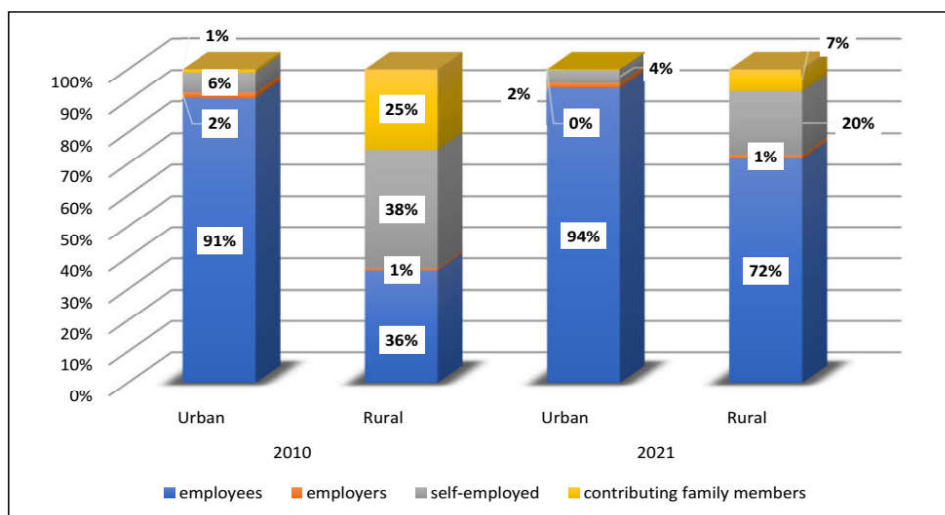


Figure 1. Romania 2010 and 2021: Employment structure by professional status and residential area (15-64 years)

Data source: Tempo-online, AMG110

Another peculiarity of the Romanian labour market was the fact that the employment structure in rural areas was significantly different from that in urban areas. While these differences diminished over the past 12 years, they still persist. Employees prevail among urban employed, while contributing family members and own-account workers are concentrated in rural areas. In 2021, employees made up for 94% of the urban employed, while the proportion of employees in rural areas was only 73%. Two out of three employees were urban residents, while three out of four own-account workers and 96% of the contributing family members were rural residents¹³. Overall, the share of non-employees among the rural employed population was, in 2021, 4.5 times higher than the one among urban employed (Figure 1), with a slightly higher ratio among young employed.

The COVID-19 pandemic not only altered drastically the structure of employment but also determined a drastic fall in the number of the employed population. Overall, since 2010, the number of employed remained rather constant; the increase in the number and proportion of employees resulted in a decrease in the number and proportion of own-account workers, respectively contributing family members, in both rural and urban areas. During 2021, the employed population decreased by 7% in one year, which was reflected in a significant decrease in non-employees, not matched by such an important increase in the number of employees (Figure 2).

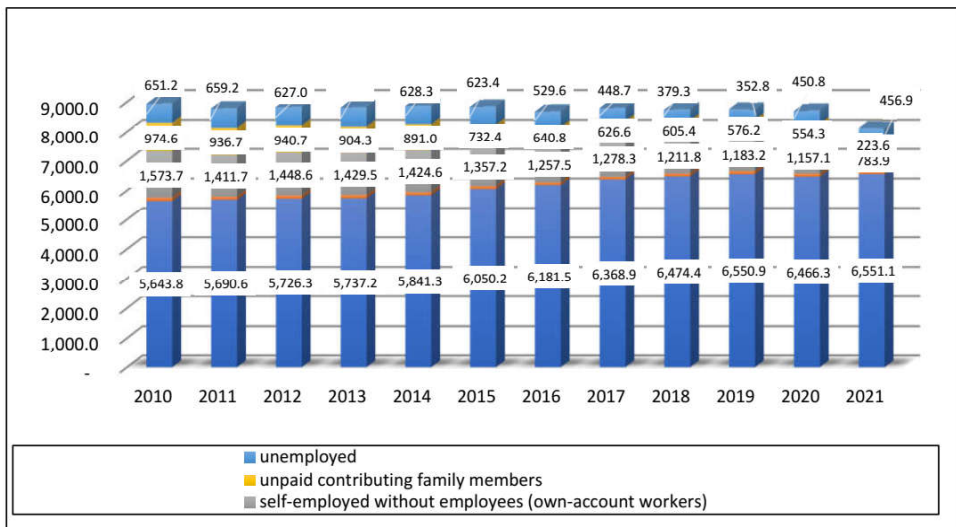


Figure 2. Romania: Active population (1000) 2010-2021

Data source: Eurostat database (*lfsa_agan*, *lfsa_egaps*, *lfsa_uagan*, *lfsa_igaww*)

Approximately 60% of the population who quitted employment during 2021 increased the ranks of inactive persons. The inactivity rate increased by 12% in one year, reaching 34.4%, reversing the decreasing trend over the previous ten years (Figure 3). Romania had over the past 12 years one of the highest inactivity rates across the EU and was one of the two countries for which inactivity increased during 2021. In absolute terms, 359 thousand people between 15 and 64 years increased the ranks of inactive persons. Inactivity increased also among young people, and this resulted further in an increase in young people not in education or training by 22% in one single year¹⁴; in 2021 1.5 million youth, i.e., 3 out of 4 persons between 15 and 24 years, were inactive. Thus, young people who exited the labour market during the pandemic did not enrol in education or training, but increased the ranks of stay at home, inactive population.

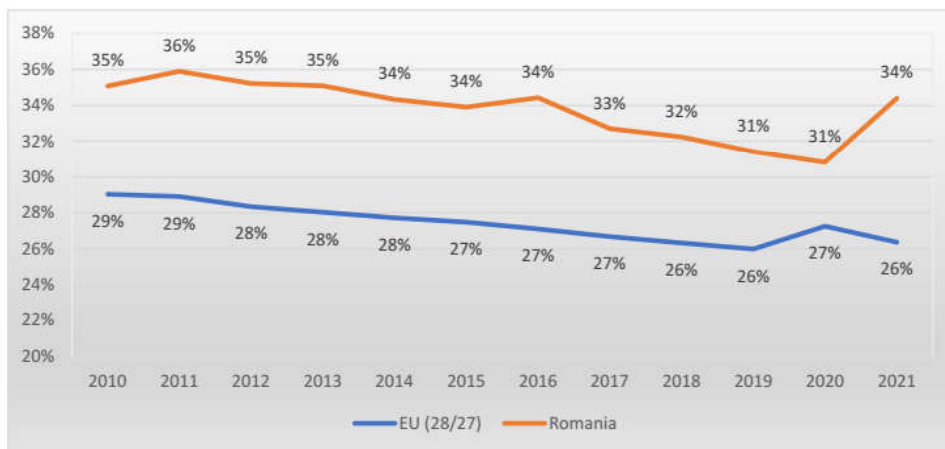


Figure 3. Romania and EU: Inactivity rates (15-64 years), 2010-2021

However, the employment structure by itself does not say anything about the quality of employment, employment opportunities or wellbeing of the two main segments of the workforce, employees, and non-employees. The following section will focus on the structure of these two segments, with a special emphasis on the structure of non-employee population. This will provide a better insight for understanding the nature of the polarization in wellbeing and the deepening of the differences between the two segments of the workforce.

Brief profiles of the employees and non-employees

Employees. Despite a decrease in the total employed population, over the past 12 years (2010-2022), the number of employees increased by 18%, with a far more spectacular increase, of 56%, in the rural areas. At the end of the third quarter of 2022, 86% of all Romanian employed between 15 and 64 years (i.e., about 6,551 thousand persons) were employees, holding an individual work contract (Table 2). In 2022, about two thirds of the employees were living in urban areas, compared to 2010 when the share was higher, with 3 out of 4 employees in urban areas¹⁵. Almost one quarter of the employees are working in the manufacturing industry, followed by services and retail/wholesale industries. About one fifth of the employees work in public administration, education, and healthcare. Finally, of all the employees, in December 2021, 18% of those with full-time contracts and 77% of those holding part-time contracts were registered with the National Pension House with salaries equal to or below the statutory minimum gross wage. Overall, about one quarter of the employees received formal work incomes at the level of the minimum gross wage or below.

Regarding their educational attainment level, employees tend to have preponderant upper secondary education and a lower proportion of low-educated persons than the EU average¹⁶ (i.e., about half of the proportion at the EU level in 2021). However, the proportion of people with higher education among employees in Romania, a little over one quarter, is lower than the EU average of higher education (Table 3).

Non-employees. The numbers of own-account workers and contributing family workers decreased significantly since 2010, i.e., by 50%, respectively 77% (Table 2). In 2021, the number of self-employed was 860.6 thousand, of which 783.8 thousand were own-account workers, a group which is, overall, only 12% of the size of the employees (Table 2). The proportion of households headed by own-account workers decreased from 20% in 2010 to 10% in 2021¹⁷.

According to survey data, more than three quarters of own-account workers were, in 2021, rural residents and most of these were working in agriculture, forestry or fish farming (i.e., 58% compared to 80% in 2010), followed by the construction sector, employing 18% of the own-account workers (from 9% in 2010). The profile of the activity sectors in which self-employed work changed significantly (see also Ilie, 2021).

Regarding their occupation, half of the own-account workers were, in 2021, skilled agricultural, forestry or fishery workers, a proportion which was more than three times higher than at the EU level¹⁸. Only a mere 5% of all self-employed (15 to 64 years) in Romania were professionals, managers, technicians, or associate professionals compared to 43% at the EU level. Other prevalent occupations among own-account workers are craft, related trades, and elementary occupations. Thus, own-account workers in Romania are still preponderantly employed in subsistence agricultural activities.

The segment of unpaid contributing family workers significantly shrunk in size since 2010 (i.e., by 77%), when this category represented one third of the total contributing family members in all Europe. In 2021, of about 223 thousand unpaid workers, a little over one fifth was youth and 96% were rural residents. Almost all of them were working in agriculture (97%) (Table 2).

Table 2. Romania: Employment by professional status, residential area, and activity sector

	Employees			Own-account workers			Contributing family members		
	2010	2020	2021	2010	2020	2021	2010	2020	2021
Number of persons	5,648,607	6,495,852	6,584,381	1,850,057	1,312,591	826,504	1,095,035	614,797	233,938
% of rural residents	26%	33%	35%	84%	82%	77%	96%	95%	96%
% working in agriculture, forestry or fish farming	2%	3%	3%	80%	71%	58%	98%	98%	97%
% working in manufacturing	26%	23%	23%	1%	2%	3%	0.3%	0.3%	0.2%
% working in construction	8%	9%	9%	9%	13%	18%	0.4%	0.3%	0.8%
% working in services and retail/wholesale	16%	19%	19%	3%	3%	5%	0.7%	0.3%	1.1%
% in transportation and storage	7%	7%	8%	2%	2%	4%	0.0%	0.1%	0.2%
% working in professional, scientific and technical activities	2%	3%	3%	1%	2%	2%	0%	0%	0%
% working in public administration, education and health services	21%	18%	18%	0%	1%	1%	0%	0%	0%

Self-employed are less educated, with one third of them with no or low educational attainment levels, a proportion which was, in 2021, almost double than the proportion at the EU average (Table 3). Overall, the share of low educated people among all non-employees in Romania has been, over the entire period, double than at the EU level, while the proportion of non-employees with tertiary education was 4 to 8 times lower than at the EU level (Table 3). As expected, contributing family members have the lowest educational capital, with a majority of these having a basic education and none of them with a higher education.

Table 3. Romania and EU: Employment status by educational attainment level

	Romania			EU28/ EU27		
	2010	2020	2021	2010	2020	2021
Less than primary, primary and lower secondary education (levels 0-2) (%), of						
all employed	22%	16%	12%	21%	16%	16%
employees	8%	8%	8%	20%	16%	15%
self-employed (own account workers with and without employees)	46%	39%	34%	26%	19%	18%
contributing family members	64%	58%	55%	46%	36%	32%
all non-employees	52%	45%	38%	27%	20%	19%
Upper secondary and post-secondary non-tertiary education (levels 3 and 4)						
all employed	61%	62%	65%	49%	48%	47%
employees	69%	66%	66%	50%	48%	48%
self-employed (own account workers with and without employees)	50%	53%	55%	46%	44%	45%
contributing family members	35%	42%	45%	47%	52%	53%
all non-employees	44%	49%	53%	46%	45%	45%
Tertiary education (levels 5-8)						
all employed	16%	22%	23%	29%	36%	37%
employees	23%	26%	26%	30%	36%	37%
self-employed (own account workers with and without employees)	4.8%	7.8%	11.3%	28%	37%	37%
contributing family members	1%	1%	0%	7%	12%	14%
all non-employees	3%	6%	9%	26%	35%	36%

Data source: Eurostat, Labor force survey (lfsa_egaed, lfsa_eegaed, lfsa_esgaed)

Summing up, most non-employees are living in rural areas and are involved in subsistence agricultural activities, forestry, or fishing, farming, followed by the construction sector, wholesale and retail services, transportation and storage. Their occupational structure is indicative of the high proportion of low educated non-employees. While their number decreased over the last decade, from almost 3 million people in 2010 to about 1.1 million people in 2021, the number of employees did not increase accordingly, thus indicating that part of this workforce segment became inactive, joining the ranks of the potential migrant workforce.

Over the past twelve years, the structure of employment changed significantly, as the share of employees increased, and the number and proportion of self-employed, both own-account workers and contributing family members decreased. As differences between rural and urban employment structures faded, discrepancies between employees and non-employees continued to increase. Differences in occupational status and educational level are not only significant but deepened over the analysed period. Most of the non-employees are rural residents, unskilled

workers, employed in agricultural activities and have a low, to average educational attainment level.

Being a rural resident and having a low level of education is also associated with low employment opportunities, as rural economies are rather underdeveloped. Thus, meagre employment opportunities in most rural areas and a legislation that mostly ignored self-employed, consolidated the gaps between rural and urban workforce and represented, over the past decade, a barrier to significant improvements in the welfare of this category of employed. Despite the noticeable changes in employment and labour market composition, positive developments were slow to emerge, thus leaving behind a still significant proportion of the workforce. The depth and nature of the gaps between employees and self-employed will be explored in the next section.

The division of the workforce: gaps in welfare/poverty indicators between employees and self-employed

As shown in section 1, over the past twelve years, between 2010 and 2021, the monetary and material situation of the employed population improved overall. The steady increase in the number of employees along with the spiralling of the statutory minimum wage during this period, was, to some extent, accountable for these developments which improved the ability to face certain risks, but not necessarily the prosperity of the employed. However, these developments did not prevent Romania to be among the poorest and most deprived EU countries over the entire period; the levels of monetary and material deprivation have been significantly higher among Romanian employed population, compared to the EU average levels, except for risk of monetary poverty among employees (Table 4).

Self-employed and unpaid workers were constantly at a disadvantage compared to the Romanian employees and to the self-employed in other EU member states during this period. For example, the median income levels were, in 2021, 3.3 times lower among employees and 8.5 times lower among non-employees compared to their EU counterparts. The proportion of employees exposed to material and social deprivation was in 2021 between 2 and 3 times higher than the EU average levels, while differences among non-employees were even higher; almost one third of these were exposed to severe material deprivation and more than half to material and social deprivation, compared to 5%, respectively 9% at the EU level. Finally, the proportion of non-employees at risk of poverty or social exclusion (AROPE) was even higher, reaching 71% in 2021, a proportion which was more than five times higher than among Romanian employees and about three times higher than the EU average for non-employees.

Table 4. Romania and EU: Main poverty indicators by employment status 2010/2021

	Romania				EU 27	
	Employees		Employed except employees		Employees	Employed except employees
	2021	increase rate 2010/2021	2021	increase rate 2010/2021	2021	
Median equivalized net income (16-64 years), Euros	6,731	149%	2,152	86%	22,170	18,246
At-risk-of-poverty rate (16-64 years), %	4.6%	-16%	62.4%	18%	6.8%	22.5%
Severe material deprivation rate (18-64 years), % (1)	7.2%	-61%	29.0%	-36%	3.8%	4.6%
Material and social deprivation rate (16-64 years), % (2)	19.6%	-49%	56.0%	-18%	7.1%	8.5%
Persons at risk of poverty or social exclusion (18-64 years), % (3)	13.1%	-41%	70.6%	-1%	9.0%	24.0%
Persons who cannot afford to get-together with friends or family (relatives) for a drink or meal at least once a month, % (2)	11.1%	-52%	34.0%	-22%	4.3%	4.9%
Persons who cannot afford to regularly participate in a leisure activity, % (2)	22.1%	-51%	54.3%	-20%	8.5%	9.3%
Persons who cannot afford to spend a small amount of money each week on themselves, % (2)	22.7%	-44%	53.6%	-21%	7.4%	9.3%
Persons who cannot afford to replace worn-out clothes by some new (not second-hand) ones, % (2)	12.1%	-36%	41.9%	10%	4.5%	4.7%
Persons who cannot afford internet connection for personal use at home, % (2)	4.2%	-76%	25.9%	-42%	1.2%	2.3%
Self-reported unmet needs for medical examination due to high costs, too far to travel or long waiting list (16-64 years), % (4)	1.6%	-52%	5.1%	-43%	1.4%	2.6%

1 - reflects the period between 2010 and 2020

2 - reflects the period between 2014 and 2021

3 - reflects the period between 2015 and 2021

4 - reflects the period between 2010 and 2016

Data source: Eurostat, SILC (ilc_di05, ilc_li04, ilc_mddd12, ilc_mdspd01, ilc_peps02n, ilc_mdsl0b, ilc_mdsl1b, ilc_mdsl2b, ilc_mddu06b, ilc_mddu07b)

The impact of the economic developments, policy responses and legislative changes on employees was significantly different than on self-employed and unpaid workers. Overall, the situation of employees improved at a higher pace compared to that of non-employees (Table 4). For example, the severe material deprivation rate decreased among employees 1.7 times more rapidly than among non-employees, while the social and material deprivation 2.7 time faster.

In fact, monetary poverty even increased among non-employees (by 18%), while it decreased among employees (by 16%). The risks of poverty faced by employees are lower than those faced by the overall EU employee population. However, while the proportion of Romanian employees at-risk-of-poverty has been, throughout the period between 2010 and 2021, lower than the proportion at the EU level, the risk of poverty among self-employed was consistently about 2.5 to 3 times higher. In 2021, about two third of these were at risk of poverty compared to less than 5% of the employees. In fact, what discriminates even more, and creates an advantage in terms of monetary wealth among Romanian employed is the level of educational attainment. The risk of poverty among Romanian employed with tertiary education was, over the last twelve years, 2.5 to 6.3 times lower than among the overall EU employed with tertiary education¹⁹.

Thus, despite the decrease in the number of self-employed and unpaid workers, and of the overall improvement of the situation of all employed, the most concerning trend over the past decade is the deepening of the gap between employees and non-employees, respectively self-employed. Due to the particularities of the labour market in Romania, differences in educational attainment level, occupation, activity sector and residential areas result in differences in the welfare of the employed. The gaps²⁰ in all main poverty indicators between employees and non-employees increased, as the monetary and material situation of these categories improved at different rates (Table 5). This resulted in a consistently growing polarization in poverty exposure and material deprivation of the working population. The main triggers for these divergent developments are labour market, social and fiscal policies addressing the self-employed, especially in the aftermath of the economic crisis of 2008/2009 and in response to the COVID-19 pandemic.

The steady increase in the relative differences in poverty indicators between employees and self-employed in Romania is not mirrored at the EU level. On the contrary, at EU level, differences between these two labour market segments decreased over the last twelve years (Table 5).

Table 5. Romania and EU: gap in main poverty indicators between employees and employed except employees 2010/2021

	Gap between employees and employed except employees (2010-2021)	
	Romania	EU*
Median equivalized net income (16-64 years), Euros	66% [2] 76%	19% [4] 18%
At-risk-of-poverty rate (16-64 years), %	266% [2] [2] 380%	177% [4] 176%
Severe material deprivation rate (18-64 years), % (1)	105% [2] 190%	37% [4] 21%
Material and social deprivation rate (16-64 years), % (2)	65% [2] [2] 138%	31% [4] 19%
Persons at risk of poverty or social exclusion (18-64 years), % (3)	142% [2] [2] 243%	120% [2] 135%
Persons who cannot afford to get-together with friends or family (relatives) for a drink or meal at least once a month, % (2)	71% [2] [2] 149%	13% [4] 14%
Persons who cannot afford to regularly participate in a leisure activity, % (2)	44% [2] [2] 114%	22% [4] 9%
Persons who cannot afford to spend a small amount of money each week on themselves, % (2)	56% [2] [2] 108%	27% [4] 25%
Persons who cannot afford to replace worn-out clothes by some new (not second-hand) ones, % (2)	80% [2] [2] 167%	29% [4] 26%
Persons who cannot afford internet connection for personal use at home, % (2)	110% [2] [2] 261%	76% [2] 79%
Self-reported unmet needs for medical examination due to high costs, too far to travel or long waiting list (16-64 years), % (4)	119% [2] 140%	50% [2] 80%

*- EU 27 for 2010-2012, EU 28 for 2013-2019, EU 27 for 2020-2021

1 - reflects the period between 2010 and 2020

2 - reflects the period between 2014 and 2021

3 - reflects the period between 2015 and 2021

4 - reflects the period between 2010 and 2016

Data source: Eurostat, SILC (ilc_di05, ilc_li04, ilc_mddd12, ilc_mdso1, ilc_peps02n, ilc_mdso10b, ilc_mdso11b, ilc_mdso12b, ilc_mdou06b, ilc_mdou07b)

The exposure to monetary poverty among self-employed was, in 2021, 14 times higher than among employees, the highest ratio for the entire period between 2010 and 2021. The relative difference in poverty exposure between the two main categories of employed peaked in 2021, when the gap in poverty reached 360%, thus being two times higher than the gap in severe material deprivation (Table 5). Overall, the gaps in poverty indicators increased significantly over the analysed period. Compared to 2015, when the data first became available, the differences between employees and non-employees regarding the affordability to undertake some social activities and make some personal spending doubled. By contrast, the gaps in all poverty indicators at the EU level decreased over the same period.

Employed except employees are at significant disadvantage not only compared to the employees, or their EU counterpart, but also compared to other categories of people of working age: people who are not employed, the inactive population, and unemployed. Their relative position is worse off compared to people who are not employed at all or to the inactive population also regarding the incidence of severe material deprivation (Figure 4).

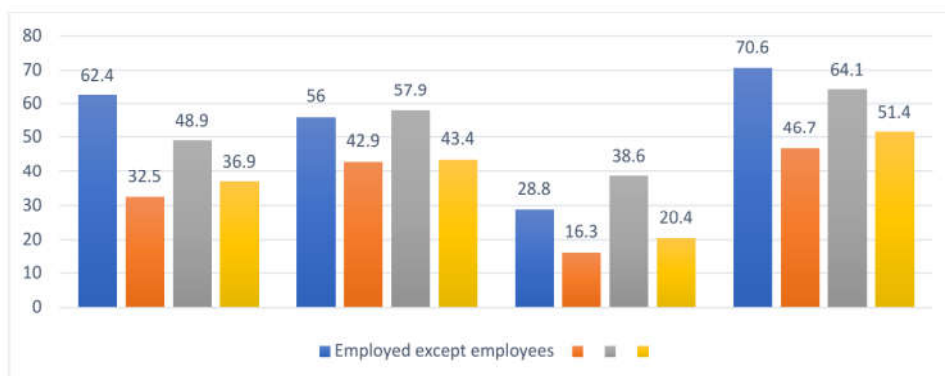


Figure 4. Romania: Poverty indicators by activity status (15-64 years), 2020/2021

Thus, despite improvements in the material and monetary situation of the employed over the past decade, their exposure to poverty, respectively to material and social deprivation was far higher compared to that of the entire EU working-age population. In fact, it places Romanian at the top of the poorest EU working-age population. In addition, the gaps between employees and non-employees, respectively self-employed, widened even more over this period, thus pointing out to a steady impoverishment of all the self-employed and of the unpaid contributing family workers.

What are the possible causes for this high polarization? Fiscal, labour and social protection policies and the institutional context of social reforms

The decreasing number of self-employed and contributing family members between 2010 and 2020 corresponds, more or less, to a similar increase in the number of employees (with a net loss of 2% of the employed population). This suggests that during this period a significant number of those employed who were not employees sought a more stable employment form, migrating from a self-employment status to that of an employee. However, the massive decrease in the number of own-account workers and contributing family members during the pandemic (a decrease rate of 37%, respectively 62%, during one single year, i.e., 2020), was also accompanied by a substantial decrease in activity rate, from 45.5% in 2020 to 41.2% in 2021. During the pandemic, many of the self-employed, unable to enter formal employment, increased the ranks of the inactive population.

Legislative definitions of self-employment and non-standard work forms

The fiscal code (law no.227/2015) defines few *categories of self-employed*, based on the way income is earned and type of income. Accordingly, self-employed can be either (a) authorised private persons, individuals, enterprises, or family enterprises, which are registered as such at the chamber of commerce, (b) persons carrying out liberal professions (physicians, lawyers, public notaries, architects, actors etc.) or (c) persons who receive an income from author's rights. In addition to these, the category of unskilled day-labourers who undertake occasional activities is regulated by special laws²¹; the sectors where irregular/ seasonal activities are the rule are also regulated along with the latter category.

An important difference operated by the fiscal legislation is between *independent and dependent self-employment*. From the perspective of social protection entitlements and rights, dependent workers are assimilated with the status of an employee, with the beneficiary of the work being required to pay the employer's equivalent contributions. However, compared to a regular employee (holding an individual work contract, IWC), dependent self-employed have no compulsory insurance against unemployment and their employment stability is not guaranteed. According to the methodological norms of the fiscal code, to be considered independent worker, the work must fulfil at least 4 out of the following 7 criteria: (1) the provider of services has the liberty to choose the place, schedule and way of performing the activity; (2) the provider must have the liberty to provide services to more than one client if they chose to do so; (3) the risks are individually taken by the service provider; (4) activities are performed by using mainly the means and capital of the provider; (5) the activities are performed by using solely the physical or intellectual capacity of the provider; (6) the provider is part of a professional

association/body, which regulates the standards of the profession; (7) the provider has the liberty to undertake the activities by himself, or with other hired personnel.

As the self-employment status does not create too many responsibilities for the beneficiary of the work, many employers prefer self-employed to employees, especially during states of economic crisis or instability. In Romania, evidence pointed out to employers who fired their employees only to switch their status to self-employed while continuing the working relationship (Williams, & Horodnic, 2017). This happened in the aftermath of the 2008-2009 economic crisis; as a result of many public debates around the subject, the fiscal code was amended, and dependent work was regulated. However, the number of dependent workers is not publicly available. A survey on self-employment carried out by the National Institute of Statistics (NIS, 2018) shows that only a very small proportion of the employees switched, in fact, to self-employment at the request of the employer.

Another category, at the border between employee and self-employed, is the category of those working for *temporary work agencies*. In Romania, temporary agency work (TAW) granted all the social rights awarded under a standard employment contract and was used extensively in the aftermath of the economic crisis. Between 2011 and 2015 the number of TWA employees increased by 250% (Guga, 2016), also as a result of the lack of regulation regarding the salaries granted to employees through temporary agencies. Currently, the use of TAW is strictly regulated about the length of the contract, reasons of use and payment conditions (law no. 209/2015). The temporary contract cannot exceed 24 months in length and can be extended up to 36 months; however, it cannot be used to replace workers participating in strikes and the payment must be similar for equivalent work, under the standard employment contract.

Finally, the legal status of a term contract (as opposed to an open-ended contract) is defined, by the labour code, as 'exceptional' and is permitted only under certain circumstances, as a replacement of a temporary inactive open-ended employee, for seasonal activities or temporary expansion of activities, for hiring of a vulnerable person on the labour market or for hiring a person with less than 5 years to the pensionable age.

According to a report on atypical work in Romania, in 2015, 310 out of 716 registered temporary agencies were not fulfilling the requirements for functioning on the labour market and about 10% of these were still under the suspicion of labour tax evasion by the National Fiscal Administration Agency (Guga, 2016). In December 2022, 1,391 TWAs were registered with the National Registry of Temporary Work Agents²². Yet, the proportion of employed people with temporary contracts is still low, ranging between 0.8% and 1.2% of all employed for the entire period between 2010 and 2020; this places Romania at the top of the EU member states with the lowest proportion of fixed-term contracts. In 2021, the proportion increased to 2%, 6 times lower than the EU average, keeping Romania still among the countries with the lowest proportion of temporary workers²³.

In Romania, fixed-term contracts are restrictive, and the current costs associated with these are equivalent - for employers - to those for an open-ended contract. If until 2018, employers were not responsible for the social contributions of TWA workers, since 2018 the responsibility for the payment of the social contribution has been transferred to the worker, thus making temporary contracts less appealing to employers. Consequently, the incentive to hire TWA workers or personnel with fixed-term contracts is rather low.

Nevertheless, data suggest that formal self-employment has not been a viable option for an important part of the employed population. This is also supported by the data on part-time work²⁴ and informality. While the proportion of part-time workers among employees varied over the entire period between 0.2% and 0.4%, compared to between 18% and 20% at the EU level, the share of part-time workers among own-account workers was considerably higher (i.e., 1.5 to 2 times higher) than the EU average. This happened despite its consistent decrease over the period between 2010 and 2021. It is especially true for skilled workers in agriculture, among whom the proportion of part-time workers was double compared to the EU average (i.e., 26% compared to 13%)²⁵. Thus, in 2021, at least one in five own-account workers worked part-time. However, this has been mostly an impediment rather than a choice, as the proportion of Romanian involuntary part-time workers was constantly at least double compared to the EU average, reaching, in 2021, two third of the part-time workers, the highest proportion among all EU member states²⁶.

Undeclared work was, until 2017, only vaguely regulated by the Labour Code Law; in 2017 (GEO no. 53/2017), undeclared work is re-defined, as to accommodate different situations next to the mere absence of a formal, written individual work contract (IWC) signed at least one day before work starts; work without the registration of the IWC at the national registry at least one day before work starts, work during periods when IWC are suspended. Moreover, work during hours which were not foreseen in part-time IWC are additional situations regulated by the 2017 amendments. Consequently, the number of employed carrying out undeclared work exploded during the regular controls of the Work Inspection agency. In 2017, 34,167 people were found working illegally; however, their numbers decreased, reaching a low of 2,244 workers²⁷ in September 2022. Over the entire period, the number of employers found to be using undeclared work varied between 2,100 and 5,000.

However, informal work is not limited to undeclared work. A significant proportion of own-account workers are still working informally. While the number of the 'invisible workers' is not easy to assess, it can be approximated by the difference between those who declare themselves as self-employed (i.e., employers and own-account workers, according to the Labour Force Survey²⁸) and those who are enrolled in the social insurance system (i.e., the public pension system)²⁹. According to this method of approximation, in 2021 only about 22% of all self-employed were 'visible' in the social protection system, a proportion

which increased from 12% in 2019, most probably due to the policy responses to the COVID-19 pandemic. Another proxy of the share of own-account workers in the formal economy is to compare the number of registered professionals in the National Trade Register with the number of self-declared own-account workers. In 2021, 55% of the own-account workers, respectively 43% of all self-employed, were registered as independent professionals; of these, even less were enrolled in the pension system.

This is the result of the fiscal policies over the last decades, which discouraged self-employment but also non-standard work after 1989. Part-time work and temporary contracts are scarce among employees, while part-time is a constrained choice, associated mostly with informal self-employment.

Fiscal and social protection measures and their differential impact on the welfare of the employed population

Social protection is available to the employed population mainly through three social insurance systems: the public pension and invalidity social insurance system, the health care insurance system, and the work insurance system, with its three sub-components: (i) unemployment, (ii) sickness and maternity, and (iii) professional diseases, and work accidents. An additional non-contributory benefit - the child rearing leave and benefit - provides further protection to the formally employed population; the latter benefit, although not insurance-based, it is conditional upon gainful, declared employment.

This section will provide a brief overview of the inequities built in the social protection system and the impact on self-employed and non-standard workers. Three thematic country reports of the European Network of Social Protection provide a full description of the legislative framework and challenges faced by the various categories of employed population previous and during the COVID-19 pandemic (Pop, & Urse, 2017; Pop, 2019; Pop *et al.*, 2021). Thus, the following analysis aims at pinpointing the main challenges which resulted in the deepening of the gap in welfare between employees and self-employed.

The social protection system in Romania grants differentiated access to social benefits and entitlements to employees³⁰ and self-employed. First, not all social insurance benefits are accessible to self-employed. Secondly, the costs associated with being insured at the same level as a full-time employee are higher for self-employed, but also for part-time employees. Third, there are no fiscal incentives for self-employed to enter the social insurance system. Last but not least, even if they declare their income for taxation purposes, their incentive to declare their actual income, thus, to obtain a higher than minimum insurance level, is extremely low. Some of the policy measures which led to this situation will be discussed further (Pop, & Urse, 2017).

Table 6. Rules regarding access to, and costs of social protection by employment type, 2023

	Social insurance (public pension system)	Health insurance	Work insurance
Employees ¹	<p>Access: compulsory, by default, through employers</p> <p>Social contributions to the Social Insurance Fund (public pension fund): 25% of the gross salary, of which 3.75% are going to the second pension pillar (the statutory private pension component) payable by the employee. + 4% of the gross salary, for extraordinary work conditions, payable by the employer² + 8% of the gross salary, for special work conditions, payable by the employer²</p> <p>Exceptions: Employees in constructions and agriculture are paying a reduced social contribution to the social insurance fund for the period 2019-31 December 2028. These are exempted of 3.75% of their gross salary, equivalent to the contribution to the second pension pillar. Thus, employees who based on their age would have been required by law to contribute to the private pension fund are not required any more, unless they voluntarily opt-in</p> <p>Insurable income Minimum insurable income is the statutory minimum wage (SMW); if the employee works part-time or its income falls below the minimum wage, the difference between the actual social contribution and the contribution corresponding to a SMW is supported by the employer. Maximum insurable income: a monthly equivalent of 5 gross average salaries</p>	<p>Access: compulsory, by default, through employers</p> <p>Social contribution to the Unique Social Health Insurance Fund: 10% of the gross salary, payable by the employee The minimum contribution level is 10% of the SMW</p>	<p>Components: Unemployment Work accidents and occupational diseases Sickness and maternity</p> <p>Access: compulsory, by default, payable by the employer Contribution: 2.25% of the gross wage fund, distributed as follows: 15% to the wage guarantee fund (12% in 2022) 20% to the unemployment fund (17% in 2022) 5% to the work accidents and professional disease fund (2% in 2022) 40% to the health insurance fund for sickness and maternity leaves (22% in 2022) 20% to the state budget (47% in 2022)</p>

	Social insurance (public pension system)	Health insurance	Work insurance
Self-employed	<p>Access: compulsory, based on income declaration, only for those who earn the equivalent of at least 12 SMW annually.</p> <p>employed with an annual income lower than 12 SMW are not required to enrol, but can opt-in (with the lowest rate, corresponding to a SMW per month)</p> <p>Social contributions to the Social Insurance Fund (public pension fund): 25% of the gross income; however, self-employed can choose, within some limits, the insurable income.</p> <p>Insurable income Minimum insurable income: the equivalent of 12 SMW per year, for those earning the equivalent of 12 to 24 SMW per year the equivalent of 24 SMW per year, for those earning more than the equivalent of 24 SMW per year</p> <p>Maximum insurable income: a monthly equivalent of 5 gross average salaries</p>	<p>Access: Compulsory, conditional on the income level: only for those earning the equivalent of 6 or more SMW per year</p> <p>Self-employed earning less the above-mentioned level, are not required to pay, but can opt-in</p> <p>Contribution levels: 10% of 6 SMW yearly, for those with an equivalent income between 6 and 12 SMW per year 10% of 12 SMW yearly, for those with an equivalent income between 12 and 24 SMW per year 10% of 24 SMW yearly, for those with an equivalent income of 24 or more SMW per year</p>	<p>Access: Not compulsory</p> <p>Voluntary opt-in for unemployment insurance and/or sickness insurance with minimum insurable income equivalent to a monthly SMW</p> <p>Enrolment is conditional on being insured for pension and enrolled in the health care insurance system</p> <p>Contribution level: According to the percentage allocated to each component, which is modifiable through the State budget law, annually</p> <p>The minimum level corresponds to a percentage of the monthly SMW</p>

¹ – it includes all employees in standard and non-standard work forms, as well as all those employed assimilated, in terms of level rights to employees, as temporary agency workers and dependent self-employed workers, as defined by the law (Fiscal Code, Law 227/20215 and its methodological norms, GD 1/2016)

² – for the definition of special and extra-ordinary work conditions, for which employers are required to contribute supplementary, see law no. 263/2010 on the social insurance system

Source: Fiscal code (law no. 227/2015), social insurance and public pension system (law no. 263/2010), work insurance (GD 70/2017)

Employees, depending on their work history, have full access to all benefits and rights associated with the three main social insurance systems by default (see Table 6). That is, all employees are automatically enrolled with all insurance systems, as employers have the responsibility to register employees and to withhold all associated social contributions, and this despite the fact that since 2018, contributions are almost entirely the responsibility of the worker. While the access to all benefits – invalidity, unemployment, sickness/ maternity leaves and indemnities, etc. - is not restricted to any category of employees, low-income part-time employees were, over the entire period, at a disadvantage compared to full-time employees; employees with incomes below the statutory minimum

wage (SMW) level, due to part-time work, were subjected to fiscal burdens corresponding to a full-time SMW in order to secure minimum social benefits; this represents a higher taxation rate compared to full-time minimum wage employees. While in 2020 the problem was corrected, in July 2022, an emergency ordinance (GD 16/2022) which amended the fiscal code reversed the situation again. However, the 2022 amendment stipulates that the difference between the actual level of contribution, corresponding to the real income of the person and the minimum contribution level, corresponding to a full time minimum statutory wage, should be supported by the employer and not by the employee. But shifting the responsibility for the over-burden to the employer creates a disincentive for employers to hire part-time workers. The disincentive to hire part-time workers was considered by the government, for the past decade, to be an adequate response to, and a possible solution for curbing the grey economy, as many employers were hiring their employees part-time formally and were paying them extra, for a full-time schedule, informally ('envelope workers'). However, the measure proved ineffective in addressing informality yet it negatively impacted the flexibility of the labour market.

A temporary measure, to be carried out between 2019 and December 2028, decreased the social contribution rate, from 25% to 21.25% for all employees in construction and agriculture. The reduction by 3.75 percentage points in social insurance contribution corresponds to the part of the contribution which was supposed to go towards the statutory funded private pension fund (pillar II). The measure aims to create an incentive for employees and self-employed in sectors with traditional high informality to enrol in the public pension system. However, the measure comes at the expense of the private pension component of the public pension system (pillar II of the public pension system). While it may be viewed as a facility by many workers in these sectors, it decreases their chances to a decent pension later. In addition, its power to bring informal workers in the formal economy is questionable.

Self-employed, unlike employees, are not automatically insured unless they voluntarily enter a contractual relationship with the Public Pension House and/or Health Insurance House or declare their income, thus a minimum social contribution is imputed to them. The level of the minimum social contribution for self-employed is set at the same level as for employees, corresponding to the statutory minimum wage. Hence, for the self-employed with an annual income below 12 monthly statutory minimum wages (most of which are also part-time workers), this represents a significant barrier to enter the formal economy. While self-employed earning less than the equivalent of 12 SMWs annually are not required to enrol in the social insurance system³¹, opting in is a more expensive solution for this low-income segment. Not only doesn't the state assume any responsibility for this employment segment, but to the contrary, it creates an even higher entry barrier for those who might consider insuring voluntarily by setting the minimum contribution to the level of a minimum statutory wage.

Furthermore, while there is an obligation to pay social contributions for those with an annual income equivalent to or higher than 12 statutory minimum wages, these are free to choose the amount of income to be insured. Therefore, most of the self-employed who pay contributions, are insured at the level of a statutory minimum wage (the minimum insurable income). For example, in December 2021, 93% of those who entered voluntarily into a contractual relationship with the public pension house were insured at the minimum level. Starting with 2022, the fiscal code³² increases the minimum insurable income to 24 SMW per year, for those who earn, annually, a net income which is equivalent to or higher than 24 SMW. However, the amendment does not create incentives for the self-employed to insure higher incomes, but it rather might create incentives to under-declare their income.

On top of all these, to benefit from sickness and maternity indemnities, self-employed must voluntarily enrol and pay a contribution, which in the case of employees is paid by the employers. Moreover, in order to be able to enrol, self-employed must pay first social contributions to the public pension fund and to the health care insurance fund. Contributions which are normally supported by employers in the case of employees, represent additional costs for self-employed. Thus, to access benefits associated with sickness and unemployment, the self-employed must pay the contribution out of the pocket.

While in principle, self-employed have access to unemployment insurance, even less self-employed are insured against unemployment, as it is rather unappealing due to the weak protection it provides to the unemployed; Romania has only one unemployment benefit which is inadequate, granted for a very limited period (depending on the length of the work history) and, additionally, is means-tested (Pop *et al.*, 2021). Moreover, unemployment programs had low effectiveness over the past decade (2010-2020), despite the many measures which increased the number of segments targeted by these.

Contributing family members, i.e., unpaid employed, have an even more limited access to social insurance benefits than paid self-employed. While these can opt to enter a contractual relation with the National Public Pension House, the high costs of doing so represent an important barrier for this category. The same holds true for health care insurance; however, this category can be insured in the health care system through another working member of the family, as a dependent. While there are no data available on the proportion of contributing family members covered by any of the social insurance systems, their number is probably insignificant, with the most accessible insurance system being the health care system.

Finally, to gain access to the generous child rearing leave and benefit (which is followed by an insertion stimulus after re-entering the labour market), self-employed must provide proof of gainful work for at least 12 months during the last 24 months (this is the equivalent of a part-time work at the SMW level). While eligibility conditions for the benefit are not restrictive, they grant access to the benefit only to those self-employed with a declared income, thus working

in the formal economy. As shown above, the informality among self-employed is still very high, thus representing a significant barrier to obtaining the benefit for many of those employed who are not employees. However, the benefit can be claimed by any of the two parents, thus increasing the access to the benefit for those households with at least one formally employed parent.

In conclusion, most of the self-employed are not covered by the social insurances for pension, health care, unemployment, and sickness. About one out of five self-employed is insured in the public pension system, respectively in the health care system. Even less are insured against sickness and close to none against unemployment. Those insured, opt for an insurance level corresponding to a minimum wage. Not only didn't the state adopt any measure targeting specifically self-employed people, but the fiscal code systematically discouraged them to enter the formal employment system and to protect themselves against future risks.

The fact that low-income self-employed are free to get by without any social protection and that the state didn't put in place any measure to create effective incentives for those working informally to become 'visible' under the social protection system created an important mass of employed persons prone to migration. In fact, until 2020, no social protection measure targeting either specifically or exclusively the self-employed was in place.

Measures to support self-employed during the COVID-19 pandemic

Romania was one of the few countries which put in place a series of social protection measures for the employed at the beginning of 2020, immediately at the onset of the COVID-19 pandemic. Most of the measures adopted in response to the pandemic aimed at protecting the employed and at preventing unemployment. And, for the first time in the history of social protection in post-communist Romania were adopted measures targeting specifically self-employed.

Job retention measures had a significant impact on work-related income stability and on unemployment during the COVID-19 pandemic, yet most of these focused on employers and employees, and only marginally on all other categories of self-employed. Two important temporary measures, ending December 2021, were adopted early in the pandemic which targeted, explicitly, the self-employed: (a) an indemnity for suspended economic activity due to the COVID-19 pandemic, equivalent to the indemnity for 'technical unemployment' granted to those employed; a similar indemnity was granted to self-employed, for the periods during which economic activities were suspended, (b) a compensatory indemnity for reduced work time, due to restrictions on economic activities during the COVID-19 pandemic. Both benefits covered certain categories of self-employed (Table 7), and, in both cases, the level of the benefits was calculated as a percentage of the national average gross salary (75%, respectively 41%), as opposed to employees, for whom the level of benefit was calculated as a percentage of their actual salary, with an upper cap which was equal to the benefit granted to the self-employed.

Own-account workers represented, in 2021, 11% of all the employed population. Out of them, a maximum of 16% in 2020, respectively 25% in 2021, was enrolled with the social insurance system, thus becoming ‘visible’ in the formal economy and acquiring access to some benefits. The number of self-employed who directly benefited of these social protection measures during 2020, represented 11% of all self-declared own-account workers (survey data) and 66% of all those enrolled in the social insurance system.

Table 7. Romania: Number of beneficiaries of the temporary measures during the COVID-19 pandemic targeting self-employed, by type of self-employment, 2020 and 2021

	Indemnities for temporary		Compensatory indemnity	
	2020	2021	2020	2021
people with income from copyright and related rights	5,565	6,106	-	1,466
lawyers	6,027	1	996	1,192
cooperative members	8,044	137	1,065	1,765
other professionals	77,770	5,936	22,807	29,135
persons with sport activity contracts, of which:		-	n.a.	n.a.
public	4,056	122	n.a.	n.a.
private	2,526	63	n.a.	n.a.
day laborers	n.a.	n.a.	8,908	6,797
total	103,988	12,365	33,776	40,355
Total number of gainful own-account workers (LFS survey, 15 years and over)	1,312,591	826,504	1,312,591	826,504
Max. number of registered own-account workers with the social insurance system	208,669	206,144	208,669	206,144
Proportion of registered self-employed with the social insurance system, as a percentage of all own-account workers	16%	25%	16%	25%
Proportion of beneficiaries of the total number of own-account workers	8%	1%	3%	5%
Proportion of beneficiaries of the registered self-account workers	50%	6%	16%	20%
Expenditure with the social protection of self-employed, as a percentage of all expenditure with social benefits	4.7%	0.9%	0.7%	3.4%

Data source: Ministry of Labour and Social Protection, *Statistical Bulletin, Social Assistance*, available at <https://mmuncii.ro/j33/index.php/ro/transparenta/statistici/buletin-statistic>

Some measures intended to help the employed cope with the crisis generated by the COVID-19 pandemic by increasing the level of sickness benefits and the duration of child rearing and insertion stimulus benefits; however, these measures only benefited those self-employed who were already insured. Other measures did not cover self-employed at all, for example, the benefit granted to parents with children below the age of 12 during school lock-down periods; this was solely directed towards employees (Pop *et al.*, 2021).

Overall, while self-employed continued to be disadvantaged compared to employees during the pandemic, they also benefited of targeted social protection measures for the first time, a premiere in the Romanian social protection landscape. Contributing family members were mostly ignored during the COVID-19 pandemic, as the emphasis of the governmental interventions was on formal,

gainful employment. Contributing family members, many of them at risk of poverty, were only targeted by means-tested benefits for low-income households. However, the effectiveness of these measures supporting low-income households was rather low both before and during the pandemic with inadequate benefit levels and no activation component.

Institutional and administrative roots of inequalities between employees and self-employed

A 2019 European Council Recommendation on Access to social protection for workers and the self-employed, adopted as part of the European Pillar of Social Rights (EC, 2019) points out the importance of providing outreaching and accessible information on existing rights and benefits, and of simplifying the process to access these benefits for an equitable social protection system.

The topic is even more relevant for Romania, as governments, during the past decade, significantly improved the legislative framework in the field of social protection but failed to put adequate operational norms in place to ensure effectiveness, and ignored the importance of information provision. Fractured institutional arrangements, inconsistent incentive structures, complicated and over-bureaucratized application processes, lack of information and weak administrative capacity are some of the main causes which made good policies and programs fail. The primary legislative framework in the field of social protection developed rapidly catching up with that of traditional European democracies, while the methodological/ operational norms for its implementation have been systematically decoupled from the actual institutional and administrative reality.

The importance of the provision of information on social protection rights and on how to access existing benefits has been ignored for decades, as most of the benefits were, under a traditional social insurance system, designed to serve mostly employees, and were accessed by default and mediated by employers and trade-unions. An analysis of the European social policy network (Pop, 2023) points out to the uneven development of information channels regarding social protection benefits for workers and self-employed in the context of a low administrative and institutional capacity, and a low level of digitalization. Information is still provided inconsistently across public institutions, at the national level as well as at the local level. Some of the institutions developed at a rapid pace their capacity to provide consistent and effective information on social benefits that can easily reach those entitled, while some others put in place platforms to provide individualized, customized information. Examples of online accessible and personalized information channels, which were established over the past ten years, are the informational systems developed to manage and optimize processes in health care provision, the information system regarding fiscal obligations and the system for verifying social insurance pension entitlements.

However, these informational systems do not cover all informational needs on social benefits or all areas of social protection. In addition, all these systems are currently still at an early stage in their development, and not fully functional. In 2022, availability was limited to the verification of the health care insurance status (*Platforma Informatică a Asigurărilor de Sănătate, PIAS*³³), of pension rights (cnpp.ro, online account³⁴) and fiscal obligations (*Ghiseul.ro*³⁵, portal ANAF - virtual private space³⁶). On-site information displayed by public institutions (with low involvement of other service providers) is still the main information source, while online information is selectively available, and the nature of information varies from institution to institution. The quality of information also varies across institutions and is mostly problematic. Stability of information channels, awareness raising regarding these channels, standardized information provision and simplification of the provided information are still inadequately addressed, creating barriers to effective access to benefits, especially for non-employees, as these are cut off from the information provided by employers or trade-unions (Pop, 2021a). Another important barrier to effective access to social protection of the self-employed are the complicated, over-bureaucratized procedures regarding the application for and the provision of social benefits (Pop, 2023).

The COVID-19 pandemic had a positive impact on both the digitalization of information and the simplification of the provision of social benefits. Many programs have been launched during 2020-2022 to optimize information and provision processes, with the most impressive informational systems and platforms being put in place in the health care insurance system (e.g., SIGMA SMART for the management of access to medical forms, referrals, and technologies, eDES³⁷, for the integration of health care providers). Reforms in digitalization of information and optimization of provision processes are ongoing, as part of Romania's RRNP commitments to make the governmental cloud and the National Interoperability System functional.

But despite all the efforts to improve administrative and institutional capacity to optimize informational flows and provision of social benefits, self-employed are still disadvantaged by the lack of outreaching information channels. The only information and awareness campaigns put in place by the Romanian government for self-employed since 2010 were specifically targeting migrant communities; these focused on the rights of migrant workers in other European Union member states. The need for targeted awareness and information campaigns for all vulnerable groups in the labour market is acknowledged also by a synthesis report on 35 countries, EU member states and candidates (Spasova *et al.*, 2023).

Restoring equity by navigating the perks and caveats of the social protection framework

The significant decrease in the number of self-employed in Romania over the last twelve years, and especially during the pandemic, was not the result of a change in, and diversification of employment forms due to the flexibilization of the economy or to the increase in labour force mobility, but on the contrary. Self-employment decreased due to legislative constraints and disincentives (enforced through the labour code and fiscal regulations), lack of local economies, and low mobility of the work force. Self-employed faced, over the entire period between 2010 and 2021, the highest levels of poverty and material deprivation among all other categories of work-age population, and have meagre prospects for future improvements of their welfare. Self-employed, mostly unskilled workers, with a preponderantly low level of educational attainment are affected by under-employment, are facing employment instability and are working, in a high proportion, in the informal economy.

While this situation has multiple structural roots, beyond the scope of this paper, a change in the mindset of, and the perspective on the social protection system can significantly improve the situation of self-employed.

First, employment programs were supposed to increase access to the labour market and combat under-employment for all, and especially for the most vulnerable groups. However, employment programs proved highly ineffective over the past twelve years (2010-2022) and lacked a strong activation component. The linkage between education and labour market was weak, and the administrative capacity to manage and match the demand for and supply of labour force was low. While the number of employment programs increased significantly and diversified during this period, these still rely on work subsidies and financial stimuli and less on activation, increase in employability, and continuous development of labour market skills. In addition, most of the employment subsidies and financial stimuli are directed toward employers and employees, while totally ignoring self-employed. On top of this, employment programs don't provide an adequate incentive to employers to seek subsidies and take up financial stimuli; applying, gathering the documentation and providing regular reports are mostly complicated, time-consuming processes, and in many cases the conditions to benefit from these facilities are so restrictive, that costs outweigh the perks of the programmes (Pop, in-work poverty, 2018). A shift of focus towards increasing the employability of marginal groups on the labour market and supporting diversified employment forms through programmes able to reach out effectively, would substantially benefit self-employed and could result in an increase in paid employment. This would redirect the institutional attention to activation and sustainable labour market integration. Moreover, creating positive incentives for (continuous) education rather than imposing this as a punitive conditionality for accessing unemployment and social assistance

benefits for low-income households (as the minimum income guarantee) could benefit sustainable employment. Currently, the indicators based on which the effectiveness of employment programs is assessed are rather short term oriented, emphasizing the number of 'processed' beneficiaries or of employed people as an immediate output. Thus, monitoring and assessing systems becomes crucial, as these set the benchmarks which guide further actions.

A second major intervention direction is the stimulation of formal employment rather than penalizing informal employment. Over the past ten years before the onset of the COVID-19 pandemic, all efforts of the successive governments to combat informality focused on the legal accountability of employers and employees. It was mainly a punitive strategy that proved rather ineffective, as the disincentives embedded in the labour code and fiscal legislation to bend informality outweighed the penalties put in place. The fiscal legislation does not create adequate incentives for self-employed to declare their income, as the costs of buying social protection is higher than for those paid by employees. An example in this regard is the 2022 law that regulates domestic activities (e.g., housekeeping, gardening, cooking, small repairs etc.) by work vouchers. The law was welcomed as an important attempt to curb informality and became part of the social reforms proposed by the RRNP. However, as many other good laws in Romania, its effectiveness depends on its operational norms. Currently, issuing, accessing, and transacting domestic work vouchers as a payment method for domestic services imposes high costs to both service beneficiaries and service providers (Pop, 2022). Thus, it becomes crucial in combating informality to create adequate positive incentives for both employers to hire formally and self-employed to invest in their future protection (e.g., fiscal credits, subsidized contributions, increased access to, and support through social assistance benefits). A reward-based strategy, instead of a punitive one could ensure an effective take-up of an important segment of the employed, who otherwise, in the absence of any future perspectives to welfare, will continue to look abroad for more stable and rewarding work.

Finally, information on social benefits and how to access these, along with simplified procedures to apply for and receive social benefits, are crucial for self-employed who are not covered by default with social benefits and who do not receive information through employers. Currently there is no information strategy in place to address the heterogeneous category of self-employed. However, the simplification through digitalization of procedures regarding applying for, and providing social benefits has been a priority for the last five years. As shown above, the COVID-19 pandemic precipitated these positive developments. A focus on the specific needs of the various categories of self-employed remains important when tailoring information strategies and simplification procedures.

In conclusion, the precarious situation of the self-employed in Romania is rooted in both a distorted employment structure inherited from the socialist past, and in faulty labour market, social protection and fiscal policies and reforms. Thus, this situation is not primarily the result of the diversification of employment

forms as a result of the labour market flexibilization; it is rather the result of the labour market and fiscal measures which suffocated emerging self-employment and increased the precarity of current self-employed.

Despite some improvements over the past ten years in the wellbeing of the overall employed population, the situation of the self-employed is deteriorating constantly, thus resulting in a deepening of the gap in welfare between employees and non-employees. To counteract this trend towards a steady polarization of the workforce, a change of mindset at the level of labour market, social and fiscal policies is needed. Thus, a shift from a punitive legal framework towards an empowering one, to create opportunities and positive incentives for the most vulnerable segments of the workforce to enter the formal economy and invest into their future, becomes crucial.

Notes

¹ A reference to the statement ‘to see what is in front of one’s nose needs a constant struggle’ in George Orwell’s 1946 essay, ‘In front of your nose’ (available at <https://www.orwellfoundation.com/the-orwell-foundation/orwell/essays-and-other-works/in-front-of-your-nose/>).

² No systematic and reliable assessment of the amplitude of the informal sector has been done since 2011.

³ According to the Romanian legislation (i.e., the Labour code) an employee is defined as a person entering a relationship with an employer, for whom it willingly agrees to carry out work activities in exchange for a salary, relationship which is formalized through an individual work contract.

⁴ The paper covers the period 2010-2021/2022, as it allows to analyse both the policy responses to the 2008-2009 economic crisis and to the challenges posed by the COVID-19 pandemic.

⁵ Eurostat database, EU-SILC survey (ilc_iw01), data based on which conclusions are drawn reflect the working population between 18 and 64 years.

⁶ When referring to material deprivation, the paper takes into account two combined indicators, for which data broken down by activity status are available: (a) severe material deprivation (SMD), an indicator reflecting a significant state of economic strain and lack of durables at the household level (see Eurostat definition, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Material_deprivation) and (b) material and social deprivation (MSD), which reflects the affordability of selected, basic goods, services or social activities, a mix of necessary and desirable items, as defined by the Eurostat, [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Severe_material_and_social_deprivation_rate_\(SMSD\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Severe_material_and_social_deprivation_rate_(SMSD)).

⁷ Eurostat, EU-SILC survey (ilc_di05); data reflect the employed population between 16 and 64 years.

⁸ Eurostat, EU-SILC survey (ilc_li04); data reflect the employed population between 16 and 64 years.

⁹ Eurostat database, EU-SILC survey (ilc_mdcs10b, ilc_mdcs11b, ilc_mdcs12b, ilc_mddu06b, ilc_mddu07b).

¹⁰ However, the proportion of people living in households with very low work intensity among the employed population, both employees and non-employees, is lower than the EU average (see Eurostat database, SILC survey, ilc_livhl_12n).

¹¹ Throughout the paper the term self-employment will be used in reference to own-account workers (with or without employees) and will not include the category of unpaid contributing family members, as some statistical indicators used by Eurostat use a similar terminology. Both categories – i.e., own-account workers (with or without employees) and contributing family members – fall under the broader category of ‘employed except employees’, or ‘non-employees’.

¹² All EU aggregated indicators consider the country composition for the particular year for which the indicator is calculated. Thus, indicators for 2010 refer to EU 27, while indicators between 2013 and 2019, including reflect a 28 member states structure. Starting with 2020, indicators reflect the new, 27 country, composition of the EU.

¹³ Tempo-online, AMG1102

¹⁴ Eurostat, LFS survey, edat_lfse; the increase was even higher in rural areas.

¹⁵ National Institute of Statistics, TEMPO-online database, Labour Force survey (AMG_1102)

¹⁶ According to the European classification, i.e., less than primary, primary, and lower secondary education (levels 0-2).

¹⁷ Eurostat database, Household budget survey (hbs_car_t311).

¹⁸ Eurostat database, self-employed, 15 to 64 years, by occupation (lfsa_esgais).

¹⁹ Eurostat, SILC survey, ilc_li07, data refer to the population with tertiary education between 18 and 64 years.

²⁰ Throughout the paper, the gap is calculated as the difference in the values of the indicator for the two categories, as a proportion of the average value of the entire population. For example, the gap in poverty between employees and non-employees is calculated as the difference in poverty rates of these two categories, as a percentage of the poverty rate of all employed.

²¹ Regulated by law 52/2011, amended by law no. 132/2019.

²² Ministry of Labour and Social Protection, http://www.mmuncii.ro/j33/images/Documente/Munca/Reg_Nat_31122022.pdf.

²³ Data reflect the employed population between 15 and 64 years, Eurostat database (lfsi_pt_a).

²⁴ Eurostat database, LFS survey, lfsa_oftpt (accessed January 2023), data reflect population between 15 and 64 years.

²⁵ Eurostat database, LFS survey, lfsa_epgais (accessed December 2022), data reflect population between 20 and 64 years.

²⁶ Eurostat database, LFS survey, lfsa_eppgai (accessed January 2023), data reflect population between 20 and 64 years

²⁷ Ministry of Labour and Social Protection, Statistical Bulletin, Work Conditions, <https://mmuncii.ro/j33/index.php/ro/transparenta/statistici>.

²⁸ Eurostat database, LFS survey, lfsa_egaps.

²⁹ National Public Pension House, data available at <https://www.cnpp.ro/indicatori-statistici-pilon-i>.

³⁰ Under the Romanian legislation, the employee is a “person holding an individual work contract or who finds themselves in a contractual relationship with an employer for whom and under whose authority they work and who is benefiting of all the legal right and of the stipulations or collective work agreements” (Labour Code, law no. 53/2003).

³¹ the level of income is lowered to 6 SMW annually for health care insurance, see Table 6.

³² Governmental emergency ordinance 16/2022 amending the fiscal code.

³³ <http://siui.casan.ro:82/Asigurati/>.

³⁴ <https://www.cnpp.ro/web/guest/autenticare>.

³⁵ <https://www.ghiseul.ro/ghiseul/public/>; since January 2022, the site had 1.5 million active users and 2.4 million transactions.

³⁶ https://www.anaf.ro/anaf/internet/ANAF/servicii_online/reg_AMEF.

³⁷ According to the 2021 Annual Activity Report of the National Health Insurance House.

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