# PROSPECTS OF LABOR MARKET FOR ROMA MINORITY IN AN AGING EUROPE

By Albi Veizi

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> Supervisor: Davide Torsello Second Reader: László Csaba

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#### Abstract

European demographics are rapidly changing and the projections for the upcoming decades have led to many concerns, especially when we speak about the labor force participation. Increased life expectancy and a decrease in fertility rates have led to a significant reduction in the portion of young labor force in Europe and an increase in the dependency ratio. Active workforce is shrinking rapidly, putting high pressure on labor demand, social welfare, and other derivatives. On the other hand, Roma minority is one the fastest growing population in Europe since the end of World War 2 and has a striking average age of just 25.1 years. However, they are still facing unprecedented unemployment due to social exclusion, lack of education, and job discrimination among others. The upcoming crisis of young workforce shortage in Europe may provide a strong incentive for the European policymakers to ensure the effective utilization of the remaining young workforce in Europe, including the Roma minority workforce. Analyzing the labor market prospects for Roma minority in Hungary and Romania we conclude that proper policymaking in the fields of early childhood development, vocational training and entrepreneurship can result in faster integration for the Roma minority.

Keywords: Demographics; Aging Population; Roma in Europe; Labor Market Integration

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# **LIST OF ABBREVIATIONS**

ILO - International Labor Organization
TFP - Total Factor Productivity
ODR - Old Dependency Ratio
PAYG - Pay As You Go (Pension System)
EFB - European Fund For the Balkans

NGO - Non Governmental Organization

#### INTRODUCTION

Aging population is already a global demographic issue that is causing stagnation in the labor market workforce. Even more prominent in Europe, active workforce is shrinking rapidly, putting high pressure on labor demand, social welfare, and other derivatives. It is estimated that by 2030, the average age of people participating in the labor force will reach 42.6 years in Europe, higher than any other region. As a result of continuing innovation, jobs are constantly evolving, thus making it more challenging for older workers to familiarise themselves with the skills requirements needed to access a variety of jobs across different sectors. Therefore, a higher proportion of older workers will exit the labor market before reaching the statutory retirement age (International Labor Organisation, 2018). On the other hand, Roma minority in Europe, surpassing more than 12 million inhabitants and with a striking average age of 25.1 years, is still facing unprecedented unemployment due to social exclusion, lack of education, and job discrimination among others. Many decades of massive unemployment in this minority workforce have created irreversible outcomes such as vast illiteracy rates, millions living below the poverty line, and significant segregation of these communities. The upcoming unavoidable crisis of young workforce shortage in Europe may provide a strong incentive for the European policymakers to ensure the effective utilization of the remaining young workforce, including the Roma minority workforce. This paper aims to analyze the long-term effects of the aging population in terms of labor market dynamics and how it can be beneficial for the Roma minority in Europe. Significant changes in the pattern of demographic developments in Europe will force economic policymakers to adjust the current policies in order to address the issue of the increasing number of pension beneficiaries and a decreasing number of active workforce. This issue may be beneficial for the Roma minority, whose demographics are very different from the European average, with the majority of the population aged under 35. Our study is focused solely on Roma minorities in Hungary and Romania, not only due to high percentage of Roma population in these countries (11% and 10%, respectively) but also due to reliable data collection of Roma demographics in these countries during the last 3 decades. Increased employment opportunities for the Roma minority can lead to easier access to education, health services and improved living standarts. Therefore, increased market demand for young workforce combined with proper incentives and policymaking can result in faster integration for the Roma minority

# Chapter 1

# **1.** The Phenomenon of Workforce Aging in Europe

#### Introduction

European demographics in terms of age dispersion are changing rapidly and the forecasted consequences in the upcoming decades have led to many unresolved concerns, especially when we speak about labor force participation. Increased life expectancy (2019 estimations standing at 75 years for males and 82 years for females in Europe)<sup>1</sup> which has come as a result of a long period of peace and better health care among other factors, has led to an increasing portion of older people in the society. On the other hand, a dramatic decrease in fertility rates has led to a significant reduction in the portion of young labor force in Europe. A demographics study in 2015 indicated that the fertility rate has dropped even lower than the replacement fertility rate<sup>2</sup> (2.1 children per woman) in more than 98 countries.<sup>3</sup> Europe's population growth (currently standing at just 0.1 %)<sup>4</sup> will very soon (approximately by 2025) enter a stagnant population growth period followed by a population decline trend over the next decades.



Figure 1: Age Composition of Workforce in EU, in millions. Source: Eurostat(2009)

<sup>&</sup>lt;sup>1</sup> Life expectancy across EU regions. Eurostat (2020)

<sup>&</sup>lt;sup>2</sup> Replacement fertility rate is the amount of fertility needed to keep the population the same from generation to generation.

<sup>&</sup>lt;sup>3</sup> Impact of Population Aging in Europe. WorldBank (2015)

<sup>&</sup>lt;sup>4</sup> Population and population change statistics. Eurostat (2020)

European population growth (0.1%) is the smallest when compared to the population growth of other regions such as Asia (0.89%), Africa (2.52%), and Northern America (0.63%). In 2018, the average population age in Europe stood at 43.1 years, going as high as 46.3 years in Italy. The highlighted countries in our study also reflect the overall aging trend in Europe, with Romania standing at 43.2 years of average population age and Hungary at 43.3 years.<sup>5</sup> Attempts to increase the fertility rate are already becoming common policies among European countries. Finland, Poland and Hungary among other countries have designed specific policies that would support families for having more children. Hungary's Prime Minister, Viktor Orbán, has described fertility clinics as a strategic priority for his country, which also offers financial incentives to new parents (European Sting, 2020). Population aging will have profound effects on all aspects of society, from the economy to the labor market, to family relationships. Its combination with other major social and economic changes, such as globalization, the changing nature of work and migration among others, imply major challenges for the labor market and decision-makers in all developed countries.

On the other hand, there is a completely different picture when we speak about Roma population growth throughout Europe. It is important to mention that Roma minority is one of the fastest-growing populations in Europe since the end of World War 2.<sup>6</sup> While there are missing qualitative data about the overall population growth of Roma minority in Europe, estimations based on samples and small-scale data collection try to accurately estimate the Roma population. Officially the largest minority in Europe, Roma minority is estimated to have roughly 10-12 million people.<sup>7</sup> Given the fact that the same estimation has been published for several years (10-12 million has been the official estimation from 2011 to 2017) and considering that gathering data regarding ethnicity is rather sensitive and sometimes against the law<sup>8</sup>, the actual population of Roma minority in Europe, Turkey and the Balkans, however considerably large communities of Roma people can be

<sup>&</sup>lt;sup>5</sup> Statista, Average Age of European Countries (2019).

<sup>&</sup>lt;sup>6</sup> Urban Europe - statistics on cities, towns and suburbs - patterns of urban and city developments. Eurostat (2016)

<sup>&</sup>lt;sup>7</sup> Estimation provided by European Union Agency for Fundamental Rights (2019).

<sup>&</sup>lt;sup>8</sup> Data collection in the field of ethnicity, European Commission (2017).

<sup>&</sup>lt;sup>9</sup> The number was estimated by considering the average population growth in percentage in countries with better qualitative data regarding Roma demographics such as Hungary and Czech Republic.

found also in France  $(250,000 - 400,000)^{10}$ , Spain  $(750,000 - 1 \text{ million})^{11}$  and elsewhere in Western Europe  $(1.3 \text{ million})^{12}$ . The estimated average age of Roma minority stands at a strikingly low number of 25.1 years.<sup>13</sup> Considering that the European average age stands at 43.1 years, Roma minority is on average 18 years younger than the rest of the European society. On a different note, the life expectancy of Roma minority is much lower than the European average age, standing at 65.3 years (Óhidy, A., & Forray, K. R., 2019). The data facts indicated above display two very different images in terms of demographic prospects. With an estimated average age of 25.1 and a life expectancy of 65.3, we can statistically infer that the vast majority of the 18 million Roma population living in Europe fall into the working-age group or are expected to enter the labor market soon.

### 1.1 Effects of Labor Workforce Aging on Labor Productivity

This section analyses the effects of population aging on the labor market and determines implications for economic and public policy. Continuous workforce aging implies that the portion of the economically active population will be reduced with roughly the same rate of population aging. The actual political consensus regarding this issue seems to downplay the urgency of this matter, probably due to a naive assumption that an expected increase in capital intensity will be enough to mitigate the issue of workforce aging. There have been continuous scientific efforts to measure the impact of workforce aging on labor productivity, most noticeable from Feyrer (2007) and Aiyar et al. (2017) which we will discuss below. While their conclusions are debatable in the academic world due to concerns about the robustness of their findings, a more tangible study case on this matter conducted by Barth et al. (1993) provides real-life examples on this issue. He interviewed more than 400 human resources executives in large organizations and from their answers concluded that "Older workers are rated worse than the average worker when it comes to health care costs, flexibility in accepting new assignments, and suitability for training". Another credible viewpoint is the study of Maestas et al. (2016) who analyzed historical data on US demographics 1980 - 2010 and concluded that a 10% increase of the old population (over 60),

<sup>&</sup>lt;sup>10</sup> Roma Inclusion in France. European Commission (2014).

<sup>&</sup>lt;sup>11</sup> Roma incusion in Spain. European Commission (2014).

<sup>&</sup>lt;sup>12</sup> Estimates on Roma population in European countries. Council of Europe, Roma and Travelers Division.

<sup>&</sup>lt;sup>13</sup> Roma Health Report. European Commission (2014).

decreases the growth rate of GDP per capita by 5.5%. According to Maestas, the major contributor to such a significant decrease is the reduction in the labor productivity of employees. On the other hand, there are studies which claim that some sectors are not affected by the workforce aging process, or even going further to claim that workforce aging can have a positive impact on labor productivity. De Sivate et al. (2018) argues that older employees working in the banking sector may be more productive than younger and less educated colleagues, while Acemoglu et al. (2017) have found a positive correlation between population aging and economic growth, arguing that the process of workforce aging and the reduction of labor associated with it - could be encouraging firms to substitute labor factor for capital factor through the robotization of their production processes.

In our thesis, we defend the view that there is a strong negative correlation between workforce aging and labor productivity. Feyrer (2007) conducted an extensive study by regressing the age cohort structure of the labor force of 87 countries which had reliable statistics on this issue and their aggregate productivity in the time frame between 1965 and 2000. He found a significant negative correlation between the age composition of the labor force and Total Factor Productivity (TFP). Additionally, the results of the study suggested that the age cohort of the employees between 40 and 50 years old contributed positively to the overall productivity and further increase of workers in this age group would be beneficial, however, cohorts aged 50–59 and over 60 were associated with lower productivity. Aiyar et al. (2016) extended the work of Feyrer by adding more EU countries to the study and expanding the research timeframe (1950 - 2014). Given the results of their study, Aiyar claimed that a 1% increase in the employees belonging to the 55–64 years old cohort, was linked with a 0.16% - 0.7% decrease in annual productivity growth (See Apendix).

In summary, the marginal returns from the labor productivity will continue to decrease as the labor workforce gets older. According to the formula of the total factor productivity TFP, there are 2 ways to offset this problem: either by increasing the intensity of the capital or by increasing the productivity of the remaining young workforce at the same rate that the workforce aging phenomenon is affecting labor productivity. While the first solution is indeed unrealistic, the second one (increasing the productivity of the remaining young workers) is realistic and achievable. In the next chapters, we will focus on developing this solution.

#### 1.2 Workforce Aging Consequences on Public Pension Systems

Even more concerning than the effects of workforce aging on labor productivity are the effects of workforce aging on public pensions. Most of the European countries rely on Pay-As-You-Go PAYG retirement schemes, where the active workforce social contributions are allocated towards old people pensions. This retirement scheme had proved to be very efficient as there were on average 4 to 5 working people, whose social contribution had to cover 1 pension plan of a retiree. The phenomenon of workforce aging has limited the efficiency of PAYG schemes, as there are fewer social contributions from the active workforce to cover the ever-increasing number of retirees. A study from the International Monetary Fund suggests that failure to address these fiscal stresses in pay-as-you-go pension systems could inflict "serious macroeconomic damage, both on the domestic economy and, in the case of large industrial countries through international linkages, on the world economy" (Bongaarts, J. (2004).

The main concern that rises when we speak about workforce aging and public pensions is the increase in Old Dependency Ratio ODR. ODR is defined as the ratio of the number of elderly people who become economically inactive (65+ years), compared to the number of people of working age (Eurostat, 2018). At the beginning of the 21<sup>st</sup> century, developed countries had an old dependency ratio which varied from 0.19 to 0.25, meaning that for every economically inactive person over 65, there were 4 to 5 persons within the working age.<sup>14</sup> While the official old dependency ratio in Europe was 0.31 in 2019 (Eurostat), in practice it may be up to 0.4(meaning that for every retiree, there are less than 3 economically active people) due to an inconsiderate approach in the calculation formula. Old Dependency Ratio can be very misleading if used as guidance for any modification on Pay-As-You-Go policies as the formula assumes as economically inactive only people aged 65+. This is not accurate because there is a considerable portion of people who retire before 65 (Many countries offer an early retirement plan, although these plans are slowly being canceled to discourage early retirement), which means that the numerator in the old dependency formula may be higher than the official assumption. Second, the formula assumes that people of working age (15-64) are all economically active. This is again misleading as a considerate portion of people aged 15-64 are unemployed, unwilling to work,

<sup>&</sup>lt;sup>14</sup> The Ageing Report. European Commission (2018).

physically or mentally disabled and many other statuses which prevents them from being identified as economically active.



**Old Dependency Ratio in G7 Member Countries** 

Figure 2: Old Dependency Ratio Projections 1970 - 2060. Source: OECD Statistics, 2018

The current decade of 2020 may be the first decade when all the previous theories about workforce aging issue on public pension can be tested as the massive "baby boom" cohort of the 1950's is entering the retirement age. Rother et al. (2001) claimed that with unchanged contribution rates and increasing expenditure, the PAYG system will amount for 5% to 6% of GDP by the year 2050 in the European Union. In the search for a financial solution which would equalize the burden of pensions on the expenditures, we conclude that the intergenerational aspect in this issue transforms it into a political question rather than an economic one.

In conclusion, reforms regarding the structure of social welfare are already in the table of many policymakers around the world, especially on those middle-income countries with a significant population aging such as Central Europe. As we will see in the next chapter, some countries have already incorporated the private pension funds as an obligatory part of the social security scheme and are probably thinking of gradually transforming social welfare system into a private entity. Whether it will be effective or not, it will depend on the economic framework and financial dynamics of the upcoming decades. If there is anything which can be done at this point, is to engage more people to be economically active, so that there is liquidity in the social welfare distribution mechanism.

# Chapter 2

# 2. Prospects of Labor Market for Roma Minority in Hungary and Romania

#### **Introduction**

Hungary and Romania are home to more than 3 million Roma people or 10% of each country's respective population. Some of the earliest migrations of Roma in Europe were settled in Hungary and Romania back in the 13<sup>th</sup> century. It is worth mentioning that among other reasons which encouraged Roma people to settle in large numbers in these 2 countries, it is because Hungary, Romania and Russian Empire were the only nations which did not issue an order for the expulsion of Roma people (All the other European countries issued such legislation, in many cases more than once, from 14<sup>th</sup> to 16<sup>th</sup> century)<sup>15</sup>. This stance does not imply by any means that Roma people had a peaceful coexistence in these countries (Roma people were legal unpaid slaves in Romania for more than 4 centuries) as there were also major challenges in terms of employment and integration in general. In this chapter, we will focus on the historical labor situation of Roma in our study countries, along with a significant Roma population, make Hungary and Romania very coherent cases for our study.

An increasing problem in Central Europe is the population aging. The problem is becoming so apparent that the Hungarian authorities are implementing unorthodox incentives to boost the fertility rate.<sup>16</sup> Furthermore, the immigration of qualified Romanian and Hungarian workforce in Western Europe, is a significant setback for the labor market of these countries, which will eventually lead them into a Brain Drain situation.<sup>17</sup> labor market. Furthermore, by the time this scenario will happen (approximetaly by 2040), Roma population in Hungary will number around 2 million or around 20% of Hungarian total population and around 3.5 million Roma in Romania. More than 60% of them will be under the age of 40 and 85% of them will be within the working age. If unemployment levels among Roma remain the same by that time, then the burden will

<sup>&</sup>lt;sup>15</sup> The European Roma: An Unsettled Right to Memory. Anna Marie Reading (2012: 8)

<sup>&</sup>lt;sup>16</sup> Hungary's Viktor Orban designates fertility clinics 'strategic' sector. Financial Times (2020).

<sup>&</sup>lt;sup>17</sup> Migration and Brain Drain. World Bank (2019: 47)

impact the overall economy. A thoroughly drafted set of inclusive policies are required to be implemented from now so that such scenario does not happen.

# 2.3 Hungarian demographics and projections on workforce composition

Population aging is not a modern phenomenon in Hungarian demographics. Hungarian census data indicate a pattern of population aging starting from the beginning of the 20<sup>th</sup> century. Between 1901 and 1950, Hungarian people aged over 60 years, doubled from 513,000 to 1,072,000. It doubled again in the next 50 years, counting more than 2 million in 2001. In 2050, the projections about the number of people aged 60+ in Hungary estimates a lower bound of over 3 million people or 33.6% of the whole population.



Figure 3: Age Cohorts as % of the Overall Population, Source: Hungarian Central Statistical Office 2001

Population aging phenomenon in Hungary is not caused by the increased life expectancy of the older generations. In fact, life expectancy at birth in Hungary is not on a par with other EU members and it is currently estimated to stand at 76 years (going as low as 72.3 for men)<sup>18</sup>. In comparison, life expectancy at birth in a non-EU member state Albania stands at 78.3 years. Several studies indicate that some of the factors responsible for the low life expectancy in Hungary include an inadequate healthcare system, a significant extend of alcohol consumption and smoking as well as a fat-rich diet.<sup>19</sup> The most important factor behind the population aging in Hungary is the decreasing national fertility rate (currently standing at 1.51 births per woman). The population

<sup>&</sup>lt;sup>18</sup> Life Expectancy at Birth, Hungary. World Bank (2020)

<sup>&</sup>lt;sup>19</sup> State of Health in the EU: Hungary. European Commission (2019: 12)

shrinkage in Hungary has been taking place since 1981 (earlier than any other OECD country<sup>20</sup>) by decreasing the national population by 1.2 million (from 10.8 million inhabitants in 1981 to 9.6 million inhabitants in 2020). Another 1 million is expected to diminish until 2050, putting the overall Hungarian population at 8.7 million.

Low life expectancy combined with a declining working-age cohort is projected to create a significant financial burden to the Hungarian social security and healthcare systems. 10% of the working-age cohort is economically inactive based on reasons other than age, raising the total Dependency Ratio to 58%. Hungarian social security system went under drastic modification in 1998, when the Hungarian Ministry of Finance introduced a new 3-pillar system that would replace the classical public PAYG system. Guided by the work of World Bank (1994), the new pension system anticipated partial but significant privatization of it. Up to this day, the reform remained subject to various critics regarding the effectivity of it, claiming that the macrodeficits are larger now than during the introduction of the reform (Orbán; Palotai, 2005). Regarding the healthcare system, more than 66% of Hungarian aged over 65, report to have at least one chronic disease (Country Health Profile: European Commission, 2019). This comes as a result of the healthcare system prioritizing the hospitalization of patients at a deteriorated health status rather than prevention and primary care during their gradual shift towards the third age.

#### **2.2** Demographics of Roma Minority in Hungary

The earliest data regarding Roma population in Hungary date back to 1971, from a large-scale state survey on Roma minority and their social situation, settlement types, regional distribution, housing conditions, education, employment, and income levels (Kemény; Janky, 2003). This survey estimated that there were around 320,000 Roma living in Hungary in the beginning of the 1970's.<sup>21</sup> Another large-scale survey on Roma minority was conducted in 2003 by Minority Research Institute of the Hungarian Academy of Sciences and it estimated that there were around 600,000 Roma living in Hungary in 2003. It means that in just 22 years (1971 - 2003) Roma population in Hungary grew by 87.5 % while the overall Hungarian population was reduced by 2

 <sup>&</sup>lt;sup>20</sup> Coping with Population Aging in Hungary, OECD Working Papers No. 338 (2002)
 <sup>21</sup> István Kemény; Béla Janky: Roma Population of Hungary 1971–2003

% (from 10.3 million in 1971 to 10.1 million in 2003). The latest research conducted in 2019 indicate that there are approximately 1 million Roma living in Hungary (Boros; Gergye, 2019), comprising 10% of overall Hungarian population. While the overall Hungarian population is estimated to further decrease by an additional 10% during the upcoming 20 years (declining below 8.7 million inhabitants in 2040), Roma population in Hungary is expected to increase into a total of 2 million inhabitants, comprising more than 22% of Hungary's population by 2040. Furthermore, in 2040 Roma will comprise more than 28% of the Hungarian labor workforce.<sup>22</sup>



Figure 4: Projection on Roma Demographics in Hungary 1971 - 2040. Source: Eurostat, 2017; Hungarian Census 2011

Given the fact that Roma minority in Hungary (and in almost every other country in Europe) are pushed for various reasons to live in segregated geographical areas, Roma comprise around 39% of the overall population in the Hungarian town of Ózd and up to 34% of the whole Borsod-Abaúj-Zemplén county, located in Northern Hungary<sup>23</sup>. Northern Hungary is one of the least developed regions of the European Union: its GDP per capita constitutes 67.5% of the national average, and 45.7% of the EU average. It is well observed that the geographical dispersion of Roma in most countries is very unfavorable: most of the Roma live in parts of their countries which are the

<sup>&</sup>lt;sup>22</sup> Prospect Magazine: Europe's most persecuted people? (2010)

<sup>&</sup>lt;sup>23</sup> Hungarian Free Press: The growth of Hungary's Roma minority

economically most disadvantaged, with lowest GDP per capita and highest unemployment rate (Messing; Arendas, 2017).

# 2.3.1 Hungarian Labor Market Dynamics

According to the Hungarian unemployment data, the Hungarian labor market has had a fruitful decade since the 2009 Eurozone debt crisis. The fiscal year of 2011, which had an unemployment rate of 11.03%, initiated a steady recovery, decreasing unemployment rates down to 6.81% in 2015. The most recent data on unemployment data estimate the Hungarian unemployment rate down to 3.46% in 2020.<sup>24</sup> Hungarian generosity on expenditures regarding compulsory education including pre-school has prompted a highly qualified workforce during the last years. This significant improvement in Hungarian human capital, especially in the field of information technology has managed to grab the attention of numerous foreign investments which are looking for cheap qualified labor force. The average gross wage in Hungarian labor market is one of the lowest compared to other EU member states, approximately 955 Euro, which has encouraged many international corporations to base some of their logistic and IT departments in Hungary. On the other hand, cheap and qualified workforce in Hungary has prompted the western European employers to entice Hungarian workers with incentive of higher wage and employment benefits. Most of the Hungarian workers emigrate to Germany (32%), Austria (27%), and the United Kingdom (17%) (Nur H., 2019). As implied in the paragraph above, the reduced unemployment during the last few years was mainly due to private sector employment while the public sector job positions were reduced by 10,000 during the last 5 years (Moldicz C., 2019). Hungarian government has highlighted their success in decreasing unemployment rate to 3.46%, however, the figure may be misleading as approximately 7% of the labor force are temporary working abroad, which means that Hungarian authorities are taking credits for the employment of their citiziens in other countries (more than 115,000 in 2016). Another more crucial point which indicate that unemployment in Hungary is not as ideal as it is presented, is the vast Hungarian state-funded public works programme. Funded by the government with the aim of providing provisional employment to unemployed people, the scheme is the main active labour market policy in Hungary. It covers a wide range of jobs from urban sanitation workers and transport infrastructure

<sup>&</sup>lt;sup>24</sup> Unemployment rate from 1999 to 2020 in Hungary, Statista 2020

among others. The most concerning parts of this scheme is its shockingly low wage and the magnitude of its size (reaching a maximum of more than 225,000 workers in 2016, mostly from Roma minority). The average remuneration received by the workers under this scheme is around 50,000 HUF per month (160€) while the official minimum net wage in Hungary is 84,700 HUF (270€). Therefore, there are 2 possibilities. Either a) these workers are considered as employed and the public work scheme is financially illegal for paying less than the minimum wage or b) the government is identifying the renumeration (160€) as welfare assistance and is illegally declaring the workers as employed in to decrease the national employment rate. If the workers under the public work scheme were to be considered as unemployed, the unemployment rate in Hungary would go up to 9.5%, among the highest in European Union (Zoldi B, 2016).

# 2.3.2 Roma Labor Market in Hungary

After an attempted ethnic cleansing towards Hungarian Roma during World War 2 by Nazi Germany, the Hungarian communist regime policies in 1960 aimed to increase the inclusion of Roma minority both into the education system and into the labor market (through compulsory employment). By 1971, 85% of Roma men in Hungary were employed, mostly on heavy industry and construction. Furthermore, Roma attendance in the compulsory education achieved rates higher than 90% (EU Policy Solution Papers, 2011). The fall of communism in Hungary lead to an initial economic collapse, similar to other Central European countries at that time. The labor market demand and supply, as composed during the central planning, made no more sense in the market-based economy, causing a dramatic drop of labor demand in many sectors. The sectors of heavy industry and construction, where the overwhelming majority of Roma workforce was employed, were among the first sectors to be demolished. According to Kézdi, Gábor (2010), most of the Roma who lost their job during the transition people have been left without a regular jobever since.

The employment gap between Roma and Non-Roma widened significantly within five years between 1989 and 1994, reaching a gap of almost 40 percent (0.29 for Romani men vs. the 0.66 national average and 0.17 for Romani women vs. the 0.53 national average).<sup>25</sup> The gap has slightly increased due to moderate increase in the employment rate of Non-Roma. Going forward to 2007,

<sup>&</sup>lt;sup>25</sup> National Roma Survey, Hungary (1994)

the regular employment gap between Roma and Non-Roma has increased to 47% as seen in Fig. 8, which has forced 11% of Roma workforce to look for alternative employment options such as the informal sector.

		Men	V	Vomen
	Roma Non-Roma		Roma	Non-Roma
Distribution by employment				
Employed in regular job	35	82	24	71
Employed in irregular jobs	11	3	3	2
Unemployed*	32	5	27	9
At home with children	1	0	27	9
Disabled	14	6	11	6
Other inactive	7	4	8	4
All	100	100	100	100
Implied unemployment rate**	0.41	0.06	0.50	0.11

**Employment of Roma and Non-Roma in Hungary 2007** 

Figure 5: Roma Employment Rates in Hungary compared to the Non-Roma employment rates. Source:

An empirical study on Roma employment in Hungary, was conducted by Kézdi and Gábor in 2010. The study aimed to identify the causes which had led to a massive gap in employment between Roma and national population. They concluded that lack of education and labor market discrimination were two most important factors behind the gap, keeping age, gender and geographical location fixed. The correlation between lack of education and unemployment was present not only in Roma but in a national scale as well. While it is not surprising that the lack of education increases the likelihood of unemployment, the correlation between these 2 variables in Hungary is the largest in the whole European Union (Bukodi E., 2010). In 2017, the employment rate was highest among higher education graduates (84.3%) and lowest among those with at most a lower secondary education (38.5%).<sup>26</sup> Therefore, the large scale of unemployment among Roma is likely to be reinforced by the fact that 68.4 % of the Roma youngsters have not finished their upper-secondary education compared with the 9.3 of the national scale, and 40.1 % of Roma youth aged 15–24 were not in education, employment or training compared with the 9.1 of the national scale (Lakatos J. et al., 2018). In desperate need of a job, many Hungarian Roma turned their eyes at the Hungarian public works scheme. 32% of Roma men and more than 40% of Roma women were employed in this scheme during 2018. The majority of Roma workforce living in segregated villages located in north-eastern Hungary (60% of overall Roma population in Hungary live in

<sup>&</sup>lt;sup>26</sup> Vocational education and training in Europe: Hungary. Bükki, Eszter (2019).

villages as opposed to 29% of the Non-Romani population<sup>27</sup>), rely on these jobs as the only form of employment available, given the fact that private sector investments in these areas are completely absent.

# 2.4 Romanian demographics and projections on workforce composition

The phenomenon of population aging is fully present in Romania as well. Figure. 9 below indicates that Romania has been suffering from a negative population growth since the fall of the communist regime. However, the trend of declining population growth started earlier in the 1970s, therefore, the negative population growth in 1990 may not be correlated with the transition of the political system. In the past 30 years since the transition, the Romanian population has declined from 23 million in 1990 to 19 million in 2020 and is expected to lose another 3 million by 2050 (emigration being another factor besides negative population growth).<sup>28</sup> Furthermore, by 2050 half of the population will be aged more than 47 years. Children will represent less than 9.5% of the population while the fourth age group (a recent term to describe people aged over 80) will count for 6.8% of the population (World Bank, 2017). While the national fertility rate is slightly higher than in Hungary (1.63 vs 1.51 births per woman) it is still than the minimal replacement rate (2.1 births per woman).



Figure 6: Romania Population Growth 1965 - 2040. Source: Statista (2020)

Massive emigration of Romanian youth during the 1990s, 2002 (after Romania was granted visafree travel) and 2007 (after joining the European Union), has led to a gradual shrinking of the population as well as a relatively higher proportion of old people who remained in Romania. Emigration is the second most important factor which contributes to Romanian demographic

<sup>&</sup>lt;sup>27</sup> Labour Market Programmes for the Roma in Hungary. Csongor A. (2003)

<sup>&</sup>lt;sup>28</sup> Channels to West: Exploring the Migration Routes. Matichestu et al. (2017)

changes during the last decades, after the fertility rate. A recent analysis from a well-known French demographic institute indicates that Romania stands as the country which has lost most of its population (in absolute numbers, while standing the 5<sup>th</sup> biggest loser in the percentage of the population lost) in the last decade in Europe, losing each year the equivalent of an 85,000-people city, due to emigration.<sup>29</sup>

#### 2.3 Demographics of Roma minority in Romania

Romania is the home of the largest Roma population in an EU country, approximately 2 million Roma inhabitants. Roma people arrived in Romania in the late 13<sup>th</sup> century and different from all other Roma in Europe were victims of enslavement for around 500 years until 1860. Today, Roma represent the largest ethnic minority in Romania, surpassing during the last 10 years even the Hungarian minority in Romania (in 2011, Hungarian minority was the largest ethnic minority in Romania with more than 1.2 million inhabitants). Romanian census data indicates that different from the Roma segregation in Hungary, Roma in Romania are located in all 41 Romanian counties as well as in the capital of Bucharest. However, the presence of segregation is noticed within cities, e.g the county of Murehu is home to more than 50,000 Roma or 8.5% of the city population (EFB, 2014). Roma minority in Romania has an astonishingly low average age of 24.8 years. Roma children and Roma youth aged 0-14 years make up almost 40% of the total Roma population (translated into more than 800,000 Roma children and youngsters), compared to 15% among the general population (World Bank, 2014). This comes as a result of a high fertility rate among Roma in Romania, numerically between 4.38 to 4.98 (Ibid., 2013). This has resulted in the number of children in Roma families being higher - the average number of children living in the same household in the case of Roma is 1.42 as compared to 0.46 to the national case (European Commission, 2019). While the total active workforce in Romania is expected to decrease by 30% in 2050, Roma minority workforce in Romania is expected to increase. 20% of Romania's working population are Roma and by 2050 will rise to 30 percent (European Commission Survey 2011). It is important to mention that while Romania is home to the largest Roma population in Europe with more than 2 million citiziens and in the same time has the lowest indicators on the quality of Roma education, employment, housing or healthcare. Furthermore, the Gini coefficient in Romania (a measurement index estimating income equality in the country, lower is better) was estimated in

<sup>&</sup>lt;sup>29</sup> Romania is losing its people. Liberation (2018)

2019 to be 34.8 (Eurostat, 2020), one of the highest in Europe. For comparison, the index was estimated to be 21.1 for Belgium and 23.9 for Slovenia in 2019. It is very likely that the reason for such a disparity in income allocation, are the hundreds of thousands of Roma which live under minimal income, leading to a wide standart deviation of income in the population of Romania. The situation of Roma in Romania has been of a special interest to EU which chose Romania as initial ground for launching a Roma integration strategy which would later expand into every member country.

# 2.4.1 Romanian Labor Market Dynamics

The transition period during the 1990s in Romania brought a collapse in the labor market, being responsible for the disappearance of more than 2,9 million workplaces between 1989 - 1999 (Institutul National De Statistica, 2011). The labor environment during the 21<sup>st</sup> century in Romania was not able to encourage a complete job recovery as only 500,000 workplaces have been created since 1999 (European Integration Consortium, 2011). As we can see from Figure. 10 below, during the last two decades the Romanian natural employment capability gravitates towards 5 million jobs (interrupted only during 2009 by the Eurozone Debt Crisis), while the total workforce was more than twice larger.



Figure 9: Romanian Total Workforce vs Total Employment. Source: Eurostat (2019)

Therefore, from 2000 to 2020 more than 3 million Romanian workers chose to emigrate to Western European countries, bringing the total workforce down to 9 million. Furthermore, until 2015 the minimum wage in Romania was less than 200 Euro per month. Such an astonishing low wage discouraged the Romanian workforce, especially the highly qualified labor. Further fueled by the

employment quotas from Western countries for the Romanian qualified workforce, the Romanian emigration exodus has left the current labor market in Romania in a worrisome high-skilled labor shortage. According to a recent study, Romanian businesses face the some of the greatest difficulties worldwide in finding qualified personnel.<sup>30</sup> Many businesses went as far as to import workers from India, India and Pakistan, paying them around 200 dollars per month. When some of them were asked why they did not consider training unemployed Romanians instead, they answered that as soon as the Romanian workers would master the skills, they would emigrate as well. However, the situation may change as the minimum wage during the last 4 years has seen one of the fastest-growing rates in Europe, going up by more than 210%. The sudden jump may come as a result of a significant increase in the remittances coming to Romania. Figure 10 below indicates that there exists a possibility that remittances coming to Romania are significant enough to fuel the economy in short-term and provide Romanian policymakers with more time to draft a long-term economic platform which would improve labor dynamics in Romania.



Minimum wage and Remittances in Romania 2012 - 2020

Figure 10: Minimum wage increase and remittances in Romania. Source: WorldBank, 2020

In conclusion, Romanian labor market still suffers from deeply embedded structural problems which were meant to be solved during the last 30 years of market economy. Romanian labor market inability to create more than 5 million jobs in a population of 9 million job seekers, indicates that an updated platform of labor policies is required. The emigration exodus of qualified Romanian workforce has significant implications regarding the foreign investments in Romania. Therefore, an increased effort into improving the quality of vocational training is required, to estabilish a

<sup>&</sup>lt;sup>30</sup> Talent Shortage Survey. Manpower Inc, 2008.

more stable relation with those sectors which do not need highly qualified labor force. The industry of automobiles and machine manufacturing in general are largely present in Romania. Therefore, rather than importing workers from China and India, Romania can boost vocational training investment on Roma youth and become a European hub for automobile production.

# 2.4.3 Roma Labor Market in Romania

Employment of Roma in Romania is an ongoing issue which has yet to find a solution by Romanian policymakers or by European institutions. In a similar manner to Hungary, the destruction of the central economic planning led to a disruption of labor demand not only for Roma but for the whole population. However, while the national unemployment rate was gradually decreased to 5.51% in 1997, it remained as high as 58% for the Roma minority. Based on the UNDP study conducted in Romania in 2002 and 2004, O'Higgins and Ivanov (2006) have found that the majority of Roma cohort born between 1950-1970 suffered from long-term unemployment after the fall of communism and spent most of their life as economically inactive up to the time that the study was conducted. As a result of low employment rates and low wages, the labor income of working-age Roma men in Romania is estimated to be only 20% of that of the general population (World Bank, 2016). Such low income is reflected in the high poverty levels among Roma. Another study by UNDP<sup>31</sup>, indicates that 90% of Roma in Romania live in "severe material deprivation". Furthermore, the 1991 land reform in Romania that sought to privatise public land resources under the communist regime, left a significant number of Roma people without land property. 29 years later, this has resulted into more than 420,000 Roma people living in 1198 informal settlement located all over Romania.<sup>32</sup> The overwhelming poverty combined with institutional discrimination of Roma in schools, has led to a nationwide illiteracy problem among Roma. More than 90% of Roma in Romania did not manage to finish their upper-secondary school while 25% of Roma children (up to 200,000 children) drop out of primary school, meaning that they are unable to read or write. Faced with massive unemployment and without proper education, thousands of Romanian Roma chose migration in Western countries to engage in low-skilled informal jobs or even begging.

<sup>&</sup>lt;sup>31</sup> What Works for Roma? UNDP (2011)

<sup>&</sup>lt;sup>32</sup> National Roma Integration Strategy: Evaluation Report. European Commision (2019)

While the description above might be plausible for a small oppressed ethnic minority, it becomes a matter of European urgency when more than 2 million people, a population comparable to countries like Kosovo or North Macedonia, live under such horrific living conditions. Romania, under EU policy directives, launched in 2011 its *Roma Inclusion Strategy 2012-2020*. The strategy, which aimed to improve employment, education, housing and healthcare, has had little empirical evidence of its impact in 2020. However, it did a better job in incorporating the Roma integration policy into the institutional framework of Romania. The new upcoming strategy for EU Roma integration 2021- 2030 is in our opinion, a continuation of the failed attempts of the narrowly designed integration policies. Further elaboration on this issue on the next chapter.

## Chapter 3

# **3.** Long-term economic Impact of Roma labor market integration

#### Introduction

The upcoming decade of 2020 points out many challenges that need to be addressed when it comes to Roma in Europe. The United Nations objective Leave No One Behind, is more relevant than ever when it comes to the Roma minority and the future of the European Union and the global perspectives as well. Apart from the economic implications that the phenomenon of population aging brings, political implications are no less relevant, especially in our case of Roma minority. The case of Brexit, in which the determination of old people to leave EU proved to be more decisive than the determination of young people to stay, created an irreversible economic framework that will impact young generations in the United Kindom. This example is clear evidence of the devastating impact that the process of population aging can have on shifting priorities of future economic policies, which in the specific case of UK provides less space for young generations. On the other hand, economic policies under the EU guidelines have proven to be more future-oriented and provide ample space for young people. The political voice of young generations of Roma in Europe (more than 8 million young Roma under 30 are eligible to vote by  $(2025)^{33}$ , will be more relevant than ever in advocating for new effective integration policies. With a very limited time and an extensive list of challenges which needs to be tackled, EU Roma Integration Strategy 2020 - 2030 needs to prioritize those issues which promise the highest return in long-term effectiveness. In our opinion, adequate integration of Roma minority into the labor market provides the highest marginal returns, in the long journey of Roma integration. Therefore, innovative policies targeting labor integration of Roma in Europe are required to tackle unemployment, exclusion and eventually, poverty. In the next sections we will analyse some efficient labor integration policies for the Roma minority in Hungary and Romania. From career

<sup>&</sup>lt;sup>33</sup> Political Participation and Interest Articulation of Roma in Romania. Aidan McGarry (2014)

mentoring to vocational training and entrepreneurship consultation, these policies have the potential of boosting Roma integration in Europe.

#### 3.1 Long-run economic, budgetary and fiscal effects of Roma integration policies

The empirical layers upon which the policies for Roma integration are designed, are ambiguous to say at least. The lack of reliable information available concerning Roma, their employment situation and the impact of income-generating projects and employment programs led to diminishing outcomes of the implemented policies throughout the last decade (Pavel C. et al, 2018). The first study which aimed to analyze the national fiscal impact of Roma integration policies conducted by Gabor K. (2006), indicated that implementing policies which would increase the completion of secondary school by Roma pupils in Hungary, would create a Net Present Value of 55,000 Euro for each Roma who successfully completed the secondary school (This value would be collected during the lifetime of the Roma pupil from his personal income taxes, social security contributions, reductions on the unemployment benefits and VAT on consumption). He further estimates that raising Romani employment rates to the level of the rest of the Hungarian population would increase GDP growth by 2% per year on average throughout the next 50 years. Another research conducted in 2014 by the World Bank in Romania<sup>34</sup>, estimates that effectively improving the labor market conditions for Roma in Romania could increase the national GDP value by a range of €887 million and €2.9 billion as well as increase fiscal revenues by a range of €202 million and €675 million annually. Therefore, World Bank concluded in their report that integration of Roma minority is "Smart Economics" for Romania. It should be noted that these studies were based under many layers of assumptions, however, they serve as a foundation for encouraging more thoroughly research as regarding the estimation of Roma integration policies impact. While the responsibility of integrating Roma minorities in their respective countries, is a legal and moral obligation of European governments, such projections on economic benefits on Roma integration may serve as stimulus for those governments which are reluctant into expanding policy implementation when it comes to Roma integration.

<sup>&</sup>lt;sup>34</sup> Achieving Roma Inclusion in Romania - What Does It Take? World Bank, 2014.

# **3.2** Human Capital, Early Childhood Development and Vocational Training in Roma Minority

The most effective way to get Roma minority out of poverty is by providing them with long-term assets out of which they can extract marginal benefits even after the integration policies are completed. With very scarce possession of land property, bonds, savings or investment, Roma people in Hungary and Romania mostly rely on short-term cash liquidity as their only asset (coming from formal/informal wage, unemployment benefits, etc). Therefore, given the specific limitations on development strategies for Roma, one of the best assets which can be accumulated by them is human capital. The scale of marginal returns coming from an investment in human capital has an extremely wide range which goes towards infinity. The historical poor linkage between Roma and human capital accumulation has been prone to many obstacles which led to a dire current situation consisting of hundreds of thousands of Roma illiterate. As Almedia (1994) points out, a trade-off between human capital investment and consumption had to be made in most cases for Roma in Hungary and Romania. However, the intergenerational continuation of lowquality education provision among Roma parent-child relationship can be halted in current Roma young generation, by a coordinated national policy that targets Roma children adequate schooling quality as well as a healthy learning environment (provision of meals at school and electricity at home among others). There are at least a few studies that indicate that any investment made on early childhood stage in any community of children creates the highest marginal impact, compared to investments made on subsequent stages of children's life (Heckman, 2008). In 2020 there are only a few sporadic cases of initiatives that aim to boost early childhood development of Roma children in Europe. These cases include UNICEF initiative Every Roma Child in Kindergarten implemented in Albania 2015-2020 and Open Society Foundation initiative Strong From the Start implemented in Serbia 2016 - 2020. While it is still early to provide any concrete empirical result regarding the impact of these initiatives, their genuine effectiveness is out of the question, therefore, they need to be implemented as a policy framework by the respective state governments, in cooperation with professional bodies in the topic of child development such as UNICEF.

## 3.2.1 Vocational Training on Roma minority

The alarming rates of Roma unemployment in Europe have come not only as a result of discrimination on the labor market but also due to the fact the majority of Roma do not have a profession. As we mentioned earlier, more than 90% of Roma in Romania and 68.4% of Roma in Hungary did not manage to complete their upper-secondary school, meaning that they do not possess any professional skill of any profession whatsoever. Even in the informal sector, the labor market discrimination, as well as lack of social/technical skills, prevents Roma to engage even in simple jobs such as waitress/waiter, car washer or fast food server. Without any other means, many Roma are forced to engage in minimal forms of self-employment such as collecting and selling scrap and even begging. While there are no official data on this subject, different unofficial reports estimate the portion of the Roma population in Europe who engages in begging ranging from tens of thousands up to a hundred thousand.<sup>35</sup> This number is a clear example of the staggering level of labor exclusion that Roma face in modern Europe. Therefore, increasing vocational rates among Roma is extremely necessary. While it may not be able to pull them out of poverty in short-term, a pragmatic approach would lead us to the conclusion that vocational training implementation on Roma can reduce rates of long-term unemployment, informal job occupations and begging. Furthermore, vocational training leading to regular employment related to their professional acquired skills can induce deep social impact on the Roma family. A regular job among Roma adults can serve as a psychological boost for Roma children who will witness their parents/older siblings going to work after years of unemployment, encouraging them to achieve better results in school.

The significant jump in tertiary education attendance during the last two decades has led to global improvements regarding the professional, academic and scientific qualification among others, possessed by the labor force. However, it has created in the same time a shortage in many trade jobs that require technical vocational training and which may not sound very appealing to the career expectations of the young European generations. The shortage is expected to get worse, as the current labor demand for trades job technician such as electrician, plumber, carpenter, etc, are

<sup>&</sup>lt;sup>35</sup> Multiple Discrimination and Untold Stories of Resistance: a case study of Romanian Roma women conducting informal street work in Oslo. Dumitru M. (2020)

significantly covered by relatively old workers (generations of the 1970s and 1980s) who are soon expected to retire. This is a golden chance for Roma minority unemployed youth to obtain a profession that correlates with the level of the trades jobs labor supply shortage in their respective countries. In many instances, Roma NGOs initiatives in Europe have proved to be more innovative and effective in their initiatives than the state policies, due to their higher level of expertise and concentration on issues concerning Roma minorities in their respective countries. A successful initiative regarding vocational training of Roma youth is currently being implemented in Albania by a Roma NGO called Roma Versitas Albania. Known as "WinForVet" the initiative aims to strengthen professional skills of hundreds Roma young people aged 14-28 through vocational education, internships, skills development, and cooperation and partnerships with employers.<sup>36</sup> Furthermore, the Albanian labor market is already facing a shortage of trades jobs supply, which means that the likelihood of Roma youth being employed after the training is very high.

In conclusion, EU member states policies regarding vocational training of Roma youth until now, either have been too shallow in their methodology or have been targeting very few people. A proper labor integration policy that would enable the provision of Roma unemployed youth with trades jobs professional skills would result in symbiotic benefits for both Roma as well as the labor shortage of trades jobs workers. A proper policy on this issue would require the cooperation between National Employment Institutions (which would provide information regarding the sectors which are suffering labor supply shortage), National Social Services (which would provide mentorship and inform Roma youth about the most convenient professional courses at their disposal) as well as National/Private Vocational Training Institutions.

#### 3.3 Promoting Entrepreneurship in Roma Minority: Analysis of Successful Initiatives

Labor market integration for Roma minority requires a multiple-step process involving: improving human capital skills of Roma, building awareness among other stakeholders such as the private sector employers on the reduction of labor market discrimination as well as ensuring that there is in the first place a proper labor market mechanism. On the other hand, a recent approach that tackles unemployment and aims at the economic empowerment of Roma is the promotion of

<sup>&</sup>lt;sup>36</sup> Vocational education, training and employability for Roma youth in Albania and Kosovo. REF, 2020.

*entrepreneurship* among Roma. From offering microlending, designing tailored business plans and offering financial grants for setting up a business, early evaluations of such innovative economic empowerment policies have indicated that the potential of such policies might prove to be more effective than the classical labor inclusion approaches that have been used up to now. Many Roma are absorbed by the poverty trap (an economic situation where there is no margin of income above survival that can be invested for the future (Sachs, 2005)) which has proven to be quite impenetrable by integration policies due to the loss of financial, human and time resources while dealing with the poverty trap in the same time as implementing integration policies, whether it be in terms of education, labor inclusion, or other forms of integration. This approach has been implemented unsuccessfully for the last 15 years since EU started the Roma Integration Decade. Furthermore, classical labor integration policies effectivity would always be prone to unexpected fluctuation, due to being a process which requires genuine collaboration between different stakeholders in the economic market.

Boosting the rates of entrepreneurship among Roma is a new alternative approach that aims at the economic empowerment of Roma. Removing the social pressure of being employed in a discriminative environment while offering at the same time financial independence which can have a larger margin of profit depending on the owner's dedication towards the business, can provide to the Roma beneficiary an incentive for faster integration. While the increased competitiveness in the business market may prevent a portion of Roma businesses from succeeding, policies that encourage Roma entrepreneurship may be tested initially on segregated areas of Roma communities, meaning that there is little competition from other businesses. Below we will highlight a few successful initiatives and elaborate on additional policies that can contribute to improving these initiatives.

Kiútprogram is an unorthodox Hungarian social micro-credit program that aims to encourage the self-employment of Roma (mostly, but not exclusively) in Hungary, through the provision of small loans. The program was launched in 2010 based on the structure of the Grameen model<sup>37</sup> aiming to provide disadvantaged people in Hungary access to credit market. Roma in Hungary are largely

<sup>&</sup>lt;sup>37</sup> A Social microcredit loan provision structure, targeting the poor people who are unable to provide capital. The idea was originally implemented in Bangladesh in 1976 by Muhammad Yunus, who was awarded the Nobel Price for this initiative.

excluded from credit lending sector due to lack of collateral, unemployment and adverse impact.<sup>38</sup> Loans were chosen instead of charity grants to minimize moral hazards and to encourage beneficiaries of searching for their own solutions. The unorthodox aspect of this program was the structure upon which the allocation of loans was based. The loans are initially distributed only to two applicants which are estimated to be more likely to repay the loan. If the beneficiaries manage the payments on time, loans will be granted to another two beneficiaries which are selected by the first two beneficiaries. If the second beneficiaries fail to repay the loan on time they are dropped from the program and the initial two beneficiaries are required to find another two applicants to join the program. Unless they find applicants which will successfully repay their first loan, the previous beneficiaries cannot be granted a second loan. This feature is called sequential lending and it aims to increase social pressure on the community so that beneficiaries hold each-other countable. The model however was criticized for neglecting the crucial process of providing professional consultation regarding the set-up and maintenance of the business. Many Roma beneficiaries who obtained the first loan, had very limited knowledge on running a business and therefore failed. Providing individual consultation on Roma beneficiaries is crucial for the effectiveness of such integration policies.

In order to provide professional bussines mentoring to Roma business owners, an NGO in Romania called *Roma Entrepreneurship Development Initiative* has been analyzing the business market in Romania, facilitated loan provision from Romanian banks towards Roma individuals and provided tailored bussines coaching, financial services, networking assistance towards Roma enterpreneurs. If such features were to be considered as part of a new national micro-lending policy aimed at Roma who are willing to start up a bussines, then the likelihood of decreasing poverty of the beneficiaries would be very high. Furthermore, these businesses could be exempted from tax payments for a certain amount of time (1 to 3 years) in order to ensure them more liquidity in the first crucial stages of setting up a successful business.

<sup>&</sup>lt;sup>38</sup> Adverse impact refers to employment practices that appear neutral but have a discriminatory effect on a certain group. Mighty Recruiter, 2020

### **Conclusions**

Roma minority integration into the labor market may prove to be one of the most difficult policy objectives of European Union. As we saw in Chapter 2, the socio-economic situation of Roma in Hungary and in Romania is not in alignment even with basic human living conditions (similar conditions apply to Roma population in other European countries as well). Considering the undeniable EU commitment into the integration of Roma community, it is safe to assume that the problem lies into poor quality of policies design and implementation. The lack of reliable data regarding Roma demographics and employment status has transformed the policy designing process of Roma integration into a trial and error experimental process. The aim of this paper was to shed light into a small but significant window of opportunity for Roma labor market integration deriving from the aging population phenomenon. The relatively young Roma population combined with a high fertility rate (considerably above the minimum replacement rate) seems to be a demographic solution for countries like Hungary and Romania which are suffering from population aging and declining birthrates. However, this fact alone is not enough to ensure any possible positive scenario for Roma employment. As we saw in Chapter 2, Romania found it more convenient to import workers from China and Pakistan to cope with its labor shortage, rather than provide vocational training to Roma unemployed workforce in Romania. Therefore, the central thesis of this paper which is the symbiotic demographic compensation of Roma young workforce as a response to aging national workforce, serves only as a base for a multi-stage process of labor integration. As we saw in Chapter 3, Roma NGOs were the source of many innovative initiatives that tackled Roma unemployment. This comes as a result of NGOs being closer to the Roma community, and therefore having a better picture of their socio-economic needs. Investing in Roma minority human capital was a prerequisite for Roma labor integration, because it enabled Roma to become active stakeholders in the process of their integration and in the same time decreased the level of vulnerability towards other third-party stakeholders. Investing on human capital on crucial moments such as early childhood and secondary school period, is expected to have a tangible impact on the life of the Roma beneficiary. As about encouraging Roma entrepreneurship policies, it may not have an empirical impact on the first stages of the policy, however, the socio-economic

impact of rehabilitating Roma towards a regular form of self-employment, is initially more important than the empirical impact itself.

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### **APPENDIX**

In his study, Aiyar et al. (2016) claimed that a 1% increase in the employees belonging to the 55–64 years old cohort, was linked with a 0.16% - 0.7% decrease in annual productivity growth. His model was based on the details below.

$$\Delta \log YW_{it} = \theta w 55 \ 64it + \theta YADRit + \theta OADR + \mu i + \eta t + \epsilon it$$

YW: Labour productivity per person employed. It is calculated as the division of real GDP (euros, at constant 2011 prices) between employed persons and is represented as Neperian logarithm and annual increase.
w55\_64:
Percentage of people employed between 55 and 64 years of age in relation to the total number of people employed.
YADR:
Young dependency ratio, calculated as the ratio between the number of persons aged 0 to 14 and the number of persons aged 15 to 64.
OADR: Dependency ratio, calculated as the number of persons aged 65 or over and the number of persons aged 15 to 64.
IF ixed country effect.
η: Year fixed effect.
Error term.
Country.
t:

Year.

Table 1. OLS estimates of the effects of aging on output per worker and TFP growth					
Dependent	(1)	(2)	(3)	(4)	(5)
variables	D.lnYW	D.lnKY	D.lnHC	D.lnA	D.lnA <sup>PWT</sup>
	0.16544	0.05(0++	0.00.100		0.1.000000
workforce share aged 55-64	-0.165** (-2.409)	(2.237)	(0.829)	-0.228** (-2.491)	-0.149***
Old age dependency ratio	0.0287	-0.0546	-0.0602***	0.161	0.0313
	(0.203)	(-1.066)	(-5.095)	(0.854)	(0.310)
Youth dependency ratio	-0.0245	0.0159	0.00854	-0.0405	0.00442
	(-0.250)	(0.461)	(1.071)	(-0.311)	(0.0649)
Intercept	0.0293	0.00209	0.0132***	0.00985	0.0148
	(0.842)	(0.169)	(4.632)	(0.213)	(0.606)
County fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	679	700	700	679	700
Number of countries	22	22	22	22	22

lnKY is adjusted with  $\alpha/(1-\alpha)$ 

t-statistics in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1