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# ASPECTS REGARDING LABOUR MARKET IN ROMANIA AND OTHER EUROPEAN STATES

Case study

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## Keywords

Labour market  
Labour force  
Productiveness

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## JEL Classification

J01, J21, J24

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## Abstract

*This paper aims at analysing the main aspects related to the labour market. It starts by several theoretical aspects in relation with the human capital and labour market, and continues by the investigation of labour productiveness and of unemployment rate, revealing at the same time the correlation between the education level and the insertion to the labour market. Furthermore, a comparative survey is conducted regarding the efficiency of the labour market in Romania and in the other EU countries. The paper ends by forwarding a series of conclusions related to the labour market in Romania, identifying several measures meant to boost the labour market competitiveness in our country. The methods used in the present paper are the interpretative method, the structural-systemic approach, as well as the epistemological method.*

### 1. Theoretical Background

The reforms implemented in Romania after the Revolution of December 1989 aim at creating a competition market economy, with high-performance and competitive, within which the labour market plays a crucial part.

Labour market represents one of the most complex forms of markets existing in economy, as it represents the economy area where the transacted factor is labour and, according to Vogel (2003: 349-372), labour market is the main arena where the individual living conditions are determined.

The labour market is such an important market for the good operations of economy that it could be considered the barometer for reaching competition economy. However, in order to have an efficient labour market we must grant a special attention to human resources.

It is known that the literature gives a special importance to human resources, as primary element for economic growth, for the competitiveness increase, and consequently for economic development.

The triangle “physical capital – human capital – technological progress” is essential for any developed economy. Unlike the physical and technological capital, the human capital cannot be stocked, and its quality is difficult to assess. Human capital can be defined as “the stock of professional knowledge, skills, abilities that can lead a person to increase its creative capacity and therefore of the revenue expected to achieve in the future and people's ability to effectively produce goods and services” (Dictionary of Economics, 2001). Thus, the human capital represents “the key to increasing a country's global competitiveness and thus to realising long-term economic success” (Arcelus and Doran, 2003).

Human capital was studied by authors such as R. Mincer, William Petty, Adam Smith, J. S. Mill, Alfred Marshall, Karl Marx etc.

Among the promoters preoccupied with the study of human capital we can also mention Gary S. Becker (1994: 52-64) who defines this concept as “the monetary and non-monetary activities influencing the future revenues.” These activities include school education, professional training during employment, medical expenditure, migration, search for information about prices and revenues.

The literature considers the human capital and its efficient use as foundations of economic reforms implementation.

Since 1961, when the human capital concept was introduced (Schultz, 1961: 1-17), it has been treated in the same manner as physical capital, and thus its importance is relevant for the growth of a company's performance and beyond.

### 2. Correlation between the educational level – degree of insertion onto the labour market

Whereas the investment growth determines the increase of the economy's physical capital stock, the educational system underlies the growth of human capital. (Stiglitz and Walsh, 2005: 542)

The human capital theory lies at the basis of several fundamental ideas of modern economics, and provides one of the main explanations related to differences in gains, depending on age and social-professional category, identifying at the same time the main cause as regards the unequal incidence of unemployment by trades and professions. (Macmillan Dictionary, 1999)

In this conjecture, according to the *Macmillan Dictionary of Modern Economy*, we must understand that the essence of the idea of human capital refers to the investments made in human resources, with the purpose of increasing labour productiveness.

The human capital efficiency depends on the quality of the education received, and thus the higher the educational investment, the higher the performance level of human capital.

Thus, we should take into account the literacy rate (LR), defined as “the percentage of the population over 15 who can read and write a short daily life fragment”, calculated according to the formula:

$$\frac{\text{number of literate person over 15}}{\text{total number of literate person over 15}} * 100$$

According to the World Bank data for the year 2010 (the last year with available data in this respect), the situation regarding the literacy rate in some European Union member states is the (figure 1):

We remark that in Romania the literacy percentage is 98%, similar to Bulgaria, Cyprus and Spain. Lower percentages are recorded only in Greece (97%) and Portugal (95%).

On the other hand, statistic data show a close connection between the training level and the degree of insertion on the labour market.

Thus, according to the Eurostat data (2012, p. 236), in 2010 in the European Union, only 53.8% of the high school graduates succeeded in finding a job, 73.1% of the higher education alumni and over 80% of the post-secondary education graduates. The discrepancy between the degree of insertion on the labour market depending on the training level is even more obvious in the case of countries such as Bulgaria, Hungary, Lithuania, Poland and Slovakia. (figure 2)

### 3. Labour market – Comparative study between Romania and the European Union

The Frame Report regarding competitiveness “Europe 2020” is based on three essential elements: “Smart”, “Inclusive”, “Sustainable”. In their turn,

each element is based on certain pillars: (Europe 2020 Competitiveness Report: 9)

“Smart” comprises:

Pillar 1: Enterprise environment

Pillar 2: Digital agenda

Pillar 3: Innovative Europe

Pillar 4: Education and training

“Inclusive” comprises:

Pillar 5: Labour market and employment

Pillar 6: Social inclusion Pillar

“Sustainable” comprises:

Pillar 7: Environmental sustainability

Consequently, one of the competitiveness pillars is represented by labour market and employment, “the importance of the latter has been dramatically highlighted by the recent events in some southern European countries, where rigid labour markets are an important cause of high youth and long-term unemployment, the root cause of the recent unrest.” (Europe 2020 Competitiveness Report: 9)

As regards labour market efficiency, Romania ranks 23<sup>rd</sup> in the top of EU member states (table 1), whereas UK and Denmark are still first and second (however, one year ago, their ranking was the other way around).

In this respect, in UK what is important is the co-operation relation between employer and employee, flexibility in setting the salaries, as well as the employment and laying-off practices. Furthermore, in UK they lay a remarkable stress on professional management, on the close correlation between employees’ remuneration and labour productiveness, on the attraction of highly qualified labour force, etc. (WEF, 2013: 468-475).

Denmark has a unique specific labour market and still singles out as one of the most efficient labour markets in the world, with more flexibility in setting salaries or laying-off policies and thus with a higher employment capacity than in the other European countries. (WEF, 2011:23).

In Romania, labour market operation is hindered by the existence, still largely spread, of black labour or moonlighting, by the filling of different positions based on criteria different from those of value, by labour force emigration, by the problems occurred in the employee-employer relation, by the existence of a contested legislation in the field etc.

Excessive taxation in Romania makes many firms operate outside the legal norms, which results in many employees working without a contract and consequently they cannot benefit from the diverse types of insurance and social security.

On the other hand, in 2011, in *Romania*, labour productiveness per employee was 49.4%, (figure 3) of the European Union average, higher only than in Bulgaria (44.0%).

The highest labour productiveness (above the EU average) was recorded in Luxembourg (169.1%). Labour productiveness per employee was higher

than the EU average in other countries also, the highest percentages being registered in Ireland (139.8%), Belgium (127.7%), Austria (116.8%), France (116.7%), Sweden (115.8%) - Eurostat (2013).

The gap between our country and the EU-27 average is also apparent as regards the percentage of employed population per sectors of economy. Whereas in the European Union, in 2009, the percentage of persons employed in agriculture was only 5.1% (of total employed population), in Romania it was 29.1%. In industry, the percentage of employed population was 18% in EU-27 and 30% in Romania. In EU-27, more than two thirds of the employees are employed in services (67.3%), compared to only 40.9% in our country (NSI, 2010).

The high percentage of the population employed in agriculture, corroborated with the low percentage of people employed in services reflects not only the misbalances on the labour market, but also the general inefficiency of economic activities in our country.

In 2011, the employment rate for the population aged between 15 and 64 in the EU was 64.3%, exhibiting a slight growth compared to 2010 (64.1%), nevertheless it remained below the 70% target set by the Lisbon European Council for 2010.

In 2011, rates higher than 70% were recorded in The Netherlands (74.9%), Sweden (74.1%), Denmark (73.1%), Germany (72.5%) Austria (72.1%), whereas rates even lower than 60% were registered in Poland (59.7%), Slovakia (59.5%), Ireland (58.9%), Bulgaria (58.5%), Spain (57.7%), Malta (57.6%), Italy (56.9%), Hungary (55.8%), Greece (55.6%) and Romania (58.5%). (Eurostat, 2013: 233).

On the other hand, in the European Union, the unemployment rate was 9% in 2009, as the economic crisis worsened the unemployment issue, and it reached a 9.7% rate in 2010 and 2011, and 10.5% in 2012.

The highest unemployment rate was recorded in Spain, 21.7% in 2011, and 25% in 2012, and this is one of many reasons why this country is ranked among the last EU countries when it comes to labour market efficiency.

The lowest unemployment rates were registered in Austria (4.2% in 2011, and slightly higher in 2012, more precisely 4.3%), in Luxembourg (4.8% in 2011, and 5.1% in 2012), The Netherlands (4.4% in 2011 and 5.3% in 2012), Germany (5.9% in 2011 and 5.5% in 2012).

In Romania, the unemployment rate was 7% in 2012, slightly descendant compared to the previous years (7.4% in 2011, and 7.3% in 2010), but higher than in 2008 (5.8%), the year with the lowest values in the last decade.

### Conclusions:

The labour market efficiency and flexibility are critical for any economy, that is why the purpose is that the population fit for work could fill employment positions, so that we can reach the most efficient use on economy. Moreover, the human resource must be stimulated in order to provide the highest efficiency at the place of work (WEF, 2011:5).

Regarded from the microeconomic as well as macroeconomic perspective, the efficiency of human capital represents an indicator leading to the analysis of numerous aspects related to economic growth.

The purpose of this paper is to answer the following question: What measures related to the labour market should be taken in Romania in order to align to the standards of European Union developed countries?

In this respect, we must take in to consideration several measures, such as:

- the existence of a set of laws and regulations meant to ensure a good employer-employee relation and to stipulate a series of measures regarding the protection of employees in case of illness, accident, company winding off etc;
- facilities granted to young graduates when they get employed and especially when they start a business;
- investments in human resources by organising trainings and team buildings, in order to keep the pace with the most recent trends in the field;
- improvement of the employment rate by professional structures, highlighted by the increasingly numerous options of the youth for the specialisations in high demand on the global level;

Furthermore, we must keep in mind some further aspects:

- population's employment rate in economy, per different sectors,
- population's employment rate in economy, per genders
- labour force's training degree, correlated with a certain income for the labour provided;
- adequate wages, including the other factors determining the satisfaction at the place of work, so that the humans resources could be highly motivated;

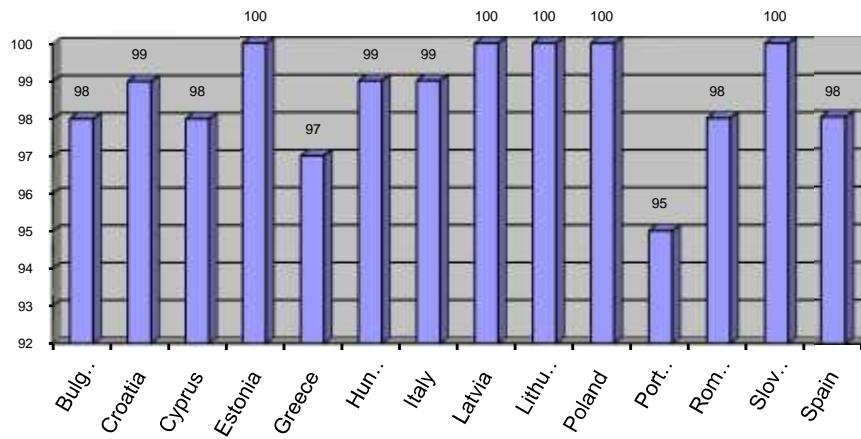
- filling positions and finding jobs in accordance with the staff's training level;

The labour market must offer population the flexibility of job change, including passing from one economic activity to another, rapidly and at low costs, including at the same time salary fluctuations. An efficient labour market must also ensure a clear relation between the stimulation of employees and their efforts, as well as the best use possible of the available talent, including equality between women and men in the business environment.

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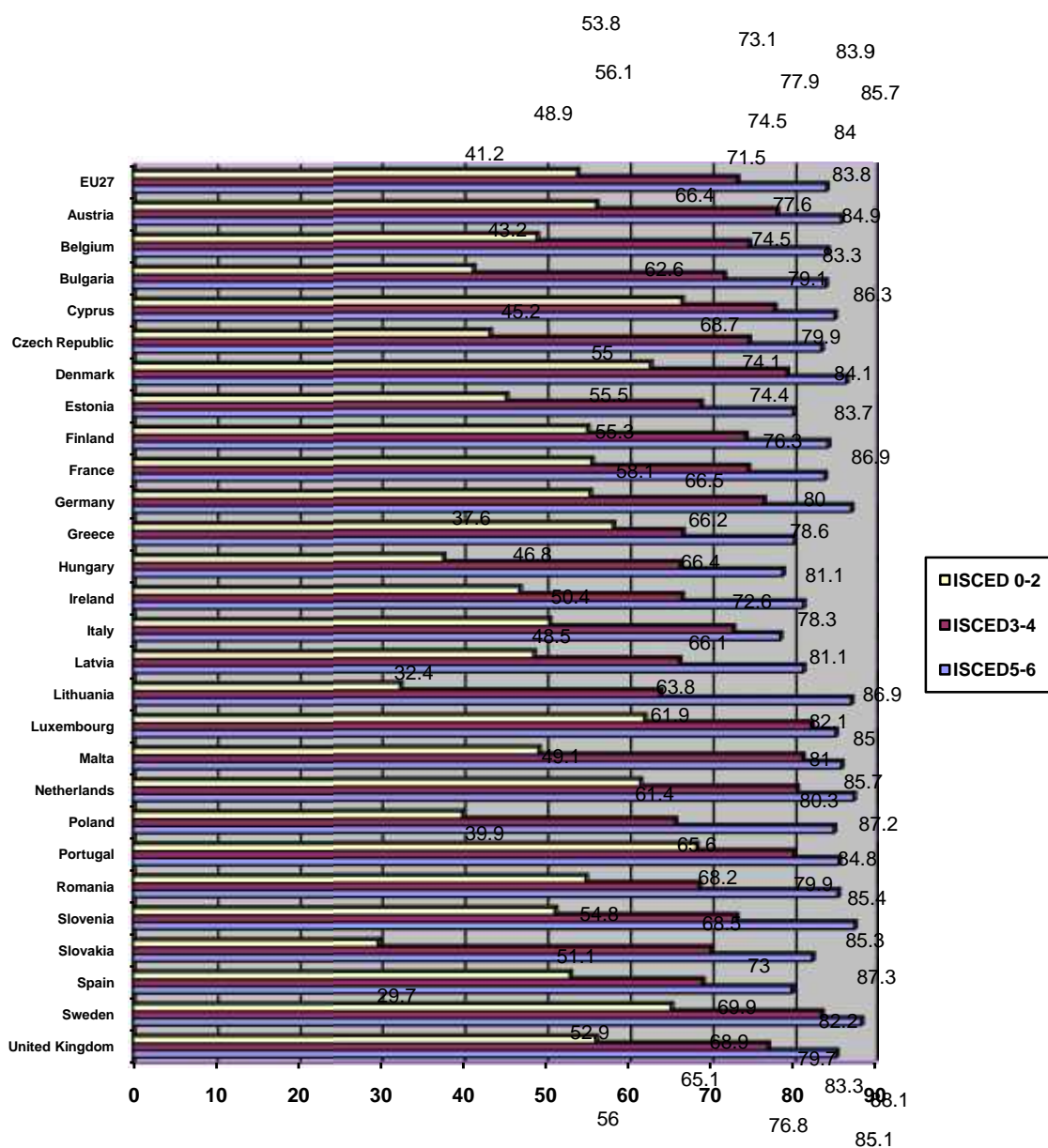
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Figure 1  
Literacy rate in some countries of European Union (%)



Source: <http://data.worldbank.org/indicator/SE.ADT.LITR.ZS>

Figure 2  
 Employment rate by highest level of education, age group 25-64, 2010 (%)



Source: Eurostat, Europe in figures - Eurostat yearbook 2012, p. 236

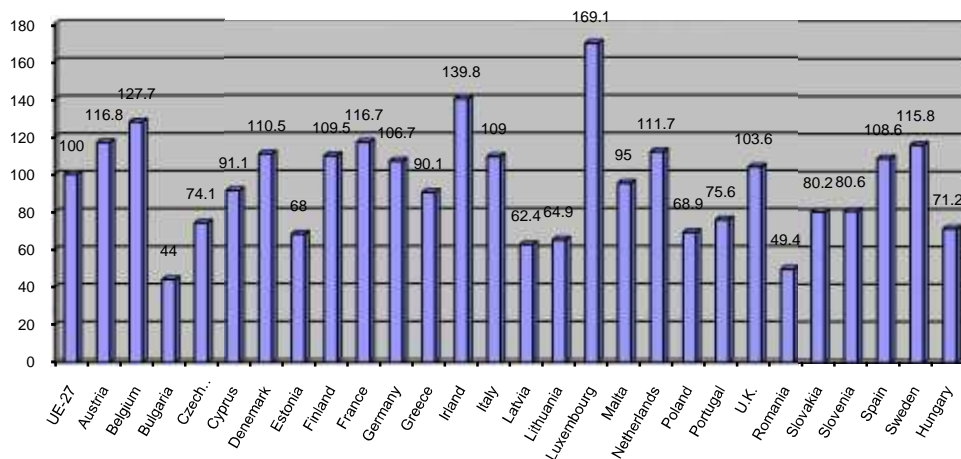
Table 1  
Index of labour force efficiency in the European Union countries

Country	Labour market efficiency	
	Rank	Points
UK	1	5.42
Denmark	2	5.22
Estonia	3	5.11
Finland	4	5.00
Ireland	5	5.00
Netherland	6	4.99
Sweden	7	4.81
Latvia	8	4.78
Austria	9	4.69
Luxembourg	10	4.66
Cyprus	11	4.57
Belgium	12	4.54
Bulgaria	13	4.54
Germany	14	4.51
Poland	15	4.48
France	16	4.41
Czech Republic	17	4.32
Hungary	18	4.27
Slovakia	19	4.20
Slovenia	20	4.15
Malta	21	4.14
Lithuania	22	4.11
Romania	23	4.01
Spain	24	3.98
Portugal	25	3.80
Italy	26	3.72
Greece	27	3.56

Source: World Economic Forum, *The Global Competitiveness Report 2012 – 2013*, pp. 18-19.

Note: These points are calculated by the World Economic Forum based on the statistic data or data collected with the help of surveys. In the case of surveys, the answers to questions were placed on a scale from 1 to 7 (1 corresponds to the lowest score, whereas 7 corresponds to the highest score). For each question, the individual answers are aggregated on the country level, in order to obtain the score of the respective country. On the other hand, the data from statistic sources are standardised for the same range [1, 7].

Figure 3  
Labour productiveness per employee (2011)



Source: Eurostat (2013); Note: Greece – provisional data

