

The Impact Of The Economic Crisis On Human Resource In Romania

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Abstract: *The shock wave of the economic crisis touched all aspects of economic, social and political life, has overturned the value systems and has disrupted the daily life of human resources.*

The lack of expectations, of a safe and legal income, insufficient jobs and undervalued human capital have generated such human resources developments that, in the future, will turn against those who now don't have a coherent policy in this area.

The purpose of this paper is to pull a warning signal about the erosion of the recovery opportunities of a very special resource which, unlike others, is endowed with reactive qualities and decision power over their own developments. Without a framework for its development, the quality human resource leaves Romania while the other part of it survives as it can. All these situations are beginning to be passed on to new generations, some abandoned any form of struggle, giving up hope, education, evolution, and some being ready to find a position outside the country.

The question that remains is: who will build the future of this country and what 'nationality' will have this?

Key words: human resource, human capital, labor market, unemployment, employment

JEL Classification: J210, J240, I250

1. Introduction

(1) What matter does the paper cover?

The purpose of this paper is to present the impact of the economic crisis on human resource in Romania, impact analyzed through the negative effects of economic crisis on the environment in which human resource acts as social and biological being.

(2) Why is the studied matter important?

The issue is important because the human resource is the only resource whose renewal potential (a limited one) can help counteract the effects of the economic crisis. It is also the only one able to act proactive and not just reactive and only able to coordinate the process of exiting the crisis. By its quality depends on its existence but also the welfare of the entire nation.

(3) How does the author intend to answer to this matter?

The paper captures the impact of the economic crisis on human resource, addressing these developments both quantitatively and qualitatively. Topics like the level and the structure of unemployment and employment, migration and the black labor market, the extent of damage to human capital are useful tools to outline an overview of the economic crisis on human resource in Romania.

(4) What is the relation between the paper and the already existent specialized literature?

The topic addressed in the paper is one that concerned many authors. The existing studies in this area will support our approach and will be summarized in the literature review section.

2. Literature review

Depending on the economic sectors that have been affected by economic crisis the link

between labor supply and labor demand has been shorted and it generated a wide range of consequences both at the macroeconomic and microeconomic level. The crisis had a direct impact on temporary employment in that in most countries, during the first phase of the crisis, temporary workers were the first to lose their jobs, whereas in the second phase of the crisis new jobs were for a large part created on a temporary basis. Part-time employment, on the other hand, continued to grow throughout the crisis. Individuals with low educational levels and young workers were particularly affected by unemployment, but also by subsequent increases in temporary employment and the still ongoing increase in part-time employment. Moreover, the countries disproportionately affected by the crisis not only saw unemployment rising but also, for the most part, saw further growth in part-time employment. (Leschke, 2012) The labor market in Romania has suffered significantly from the effects of recession and in March 2010 it reached the highest unemployment rate in the last 20 years. (Leoveanu, 2013)

Natural consequence of this evolution is providing to the labor market hardly absorbed human resources in the absence of flexible employment strategies both in the labor market and the HRM. The bigger the gap between job requirements and professional training of the unemployed labor resources the less are the chances of integrating these on the labor market.

Defining and measuring mismatch rigorously is important especially because the policies that can address the different types of mismatch are potentially very different. For example, any intervention that improves the efficiency of the matching process, such as job search counselling or relocation

assistance for either firms or workers, has the potential to reduce aggregate and/or geographical mismatch but may do very little for qualification mismatch. At the same time, when qualification or skill mismatch are due to shortages on either sides of the market improving the efficiency of the process that allocates workers to jobs may have little impact. (Pellizzari & Fichen, 2013) The global crisis is pushing companies to stretch their financial resources to buffer the effects of limited income as a result of the sharp decline in the demand of their products and services. Efficiency is the key to the survival of any company in this kind of economic condition. Running the company at the least possible cost should be the priority of management. In order to achieve that, companies must keep a pool of competent employees that will help the organization in pushing their sales, expanding their market, innovating new products and in keeping the operations efficient as possible. (Ozlem, 2012)

During a crisis period, the role of an HR Manager gains more importance within the organization as they align together with the company's altered key objectives that stem from crisis management planning and implementation plans. (Vösa, 2010)

During the crisis, more than ever, human resource must be human capital for surviving and the political decision factor must keep it inside the border of the country by offering a motivation to stay. If this is the case of Romania will see in the following section of the paper.

3. Paper Content

Human resource in Romania, as well as around the world, was the target of the

economic crisis effects triggered in 2007-2008. Financial imbalances that have generated economic crisis often cast in the last place the human resource in the preoccupations of official bodies empowered to manage this phenomenon.

The irony is that, sooner or later, Romania will realize that the human resource itself is one that holds solutions to the crisis. But not just any human resource could do this but one that has the necessary ability and training to find a solution. To what extent is it prepared to respond to such economic circumstances will be the subject of a future research.

In the following we'll try to present how much and from how many directions the economic crisis has affected the human resource. For doing this we'll approach both quantitatively and qualitatively the effects of economic crisis.

I. The effects of economic crisis on human resource. A quantitative approach.

One of the European Union main tasks is the increase of the employment, use the full potential of the human resource, in order to assure increasingly income, better working and living conditions, higher living standards, higher quality of life. This is also one of the fundamentals of the EU constitution. The knowledge of various angles of the current structure of the workforce is needed to identify stocks of increasing employment and the differences between the various structural elements to implement the most appropriate measures to increase the future overall economic efficiency. (Albu et al, 2012)

Almost 5 years after the global financial crisis, the global employment situation

remains uneven. There are encouraging signs of recovery, which started to materialize in some countries in 2010, but global labor market indicators have still not recovered to their pre-crisis levels. In emerging and developing economies, labor markets have started to recover – in some cases quite rapidly. Yet, even these countries face the challenge of ensuring that enough decent jobs are created to accommodate the strong growth in the working-age population. (ILO 2013)

Labor markets have been affected by the slower-than-projected economic recovery. Employment growth slowed down in 2013 across most regions, leading to a further upward revision of unemployment rates. Global employment grew by a mere 1.4 per cent in 2013 – broadly unchanged from 2012, but lower than in any year of the pre-crisis decade. The largest slowdowns occurred in Central and South-Eastern Europe and CIS, Latin America and the Caribbean and South-East Asia and the Pacific. (ILO, 2014)

The Romanian labor market of the last 20 years has been strongly influenced by economic, political and social transformation. After eight years of rapid economic growth and impressive poverty reduction, the shock wave of the global financial and economic crisis has highlighted the imbalances and vulnerability of the Romanian economy, characterized by poor economic management and a long list of unfinished reforms. (Stanculescu et al, 2011)

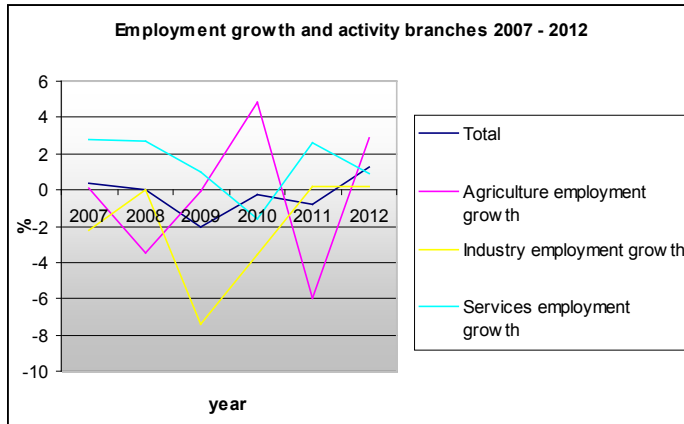
According to the European Commission over a third of people in Greece (45%), Latvia (42%), Lithuania (37%), Bulgaria (36%), Romania (36%), and Hungary (34%) say that their household ran out of funds. Only in Romania, Estonia and Latvia do fewer people think that their financial situation

will deteriorate (with no change in Finland). In five EU countries, a majority of respondents thinks that 1 in 3 of their fellow citizens is poor: Hungary (68%), Lithuania (64%), Bulgaria (61%), Greece (61%) and Romania (59%). At individual country level, the results show that, in six Member States, at least one person in three reports that their household ran out of money during the previous year: Greece (45%), Latvia (42%), Lithuania (37%), Bulgaria (36%), Romania (36%), and Hungary (34%). (European Commission 2012)

Sure, the human resource of Romania has its share of optimism (for example, in five Member States, at least 20% of respondents say that they expect their financial position to improve over the next 12 months: Estonia (32%), Lithuania (29%), Romania (25%), Sweden (24%) and Latvia (21%). (European Commission 2012) but beyond that, the problems faced are quite real and serious.

Employment & unemployment trend

If in 2007 the total employment rate stood at 58.8%, in 2012 it reached 59, 5%, unvarying significantly between 2007 and 2012. Increasing employment in agriculture has registered important fluctuation between 2008 and 2010 from -3.5% to 4.8%. This evolution is not surprising because all other economic fields generated human resources who could not find a job. Both for industry and services the evolution of employment in the same period stood on a downward trend. But 2011 has changed this situation; the level of employment in agriculture has decreased considerably. The least affected was the services sector that recorded a negative growth in 2010.



Source: Eurostat

In 2010 and 2012 the refuge seems to have been the agriculture but even in this sector there were problems generated by the small size of the property and the lack of funding. Another solution that has been found by human resource in Romania was to become self-employed. According to EUROSTAT about a third of the total workforce is made up of self-employed, Romania being the second after Greece in the EU in this regard.

In fact, if we look at the evolution of self-employed, we can realize that, about one year after the start of the crisis, the only way to make part of the employment was to become self-employed. Between 2009 and 2010, the employment growth in this category was 2.2 percentage points.

Another noteworthy aspect is the evolution of the black labor market. The black market employment is a phenomenon present in most societies. However, depending on specific factors, the dimension can vary

considerably. According to a POSDRU programme, by speaking with participants in the study, it appears closely linked to the economic downturn in recent years. Although it was practiced before the economic crisis, this had a strong amplifying effect on the phenomenon. (POSDRU, 2013) For example, the value of fines for breaching the law in the field of labor relations in 2011 amounted over 125.545 million lei (about 30 million euro), of which 105.373 million lei (about 25 million euro) only for undeclared work. In 2012 in Romania were about 1.45 million "black" employees, representing approximately 23% of all employees in the economy. (Fiscal Council, 2012) In fact, this phenomenon has accompanied ascending the Romanian economy ever since 1990.

The final Report of the Fiscal Council of Romania highlights very well the evolution of this phenomenon:

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|------|------|------|------|------|------|------|
| Black Economy workers (number) | 1093 | 1008 | 998 | 1177 | 1395 | 1449 | 1445 |
| Black Economy workers (% in total workers) | 17.7 | 16.3 | 15.8 | 18.9 | 23.0 | 23.5 | 23.2 |

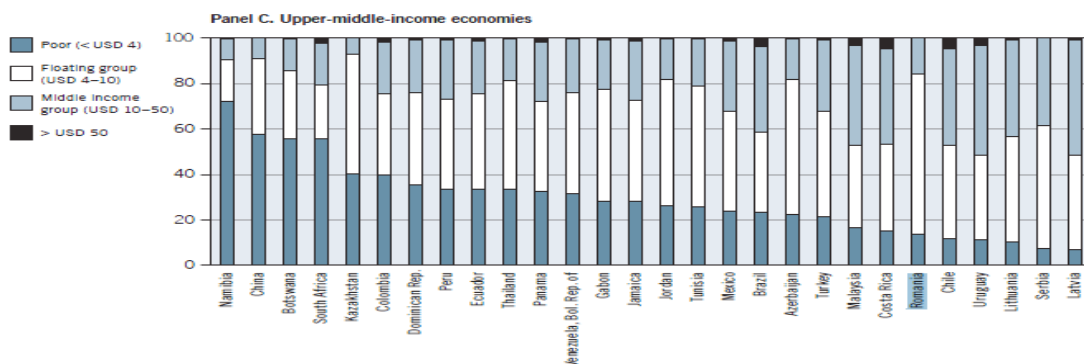
Source: Fiscal Council, Romania, Final Report, 2012

This development has negative consequences for the living standards of the black market workers, for their dignity and their physical and mental security. They are exposing at all sorts of risks, risks eroding steadily, sometimes to the cancellation, the dignity of human resources and ultimately its existence. The fluctuations to which the human resource is exposed on the black labor market do not allow an existential term plan, but only a temporary one, that help on short

term and often wasted the human resource.

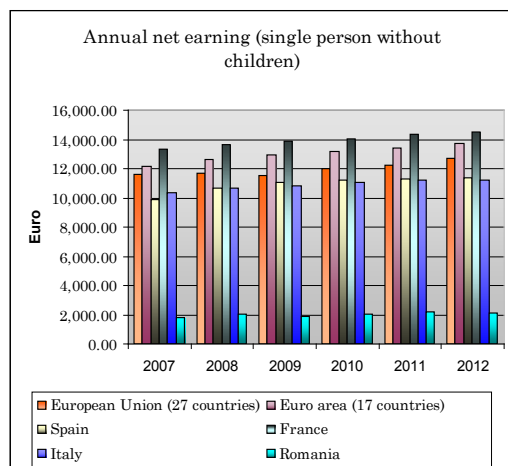
Moreover, the data provided by the World of work report 2013 reveal the financial insecurity that touched a huge percentage of the population of Romania in 2010. The percentage of those who fluctuated between low and middle level of the income was very high. More than 60% of the population was in this situation and one of the the main causes of this trend was the “option” of human resource to work on the black market.

Incidence of different income groups in emerging and developing economies, selected economies, 2010 (percentage)



Source: World of work report 2013, page 37

The constant falling of the incomes of the employed in this period has turned both unemployed and a part of the employed population to look for a job abroad.



Source: Eurostat

As it can be seen from the chart above annual net average income in Romania is well below that existing in countries like Spain, Italy, France, countries chosen mainly by the Romanians who had hoped to have a decent life abroad. Between 2009 and 2010, approximately 26.2% of all households were characterized by the existence of migrants. Departure rate is slightly underestimated because, according to the research methodology, in households with returning people were not recorded data on potential migrants who have not yet returned home. Therefore, existing data do not allow determining the rate of departures for households with returned people. (Stanculescu et al, 2011) Black labor market strongly supported by the

economic crisis and characterized by insecurity and low income resulted in the emergence of this phenomenon as an outlet for the hope of Romanians.

Another indicator, relevant for the purpose of the paper, is the evolution of unemployment that highlights the challenges the human resource facing. Significant in this regard we find the evolution of long-term unemployment that affects profoundly the living standard of human resource in this situation, and more importantly, its ability to adapt to changes having place in the economy. Eurostat data shows a significant share of it in total unemployment, and, moreover, an increasing trend of this share since 2009.

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|------|------|
| Unemployment rate (%) | 6.4 | 5.8 | 6.9 | 7.3 | 7.4 | 7.0 | 7.2 |
| Long term unemployment in % of unemployment | 50 | 41.3 | 31.6 | 34.9 | 41.9 | 45.3 | - |

Source: EUROSTAT

II. The effects of economic crisis on human resources. A qualitative approach.

If until now we have presented more quantitative aspects of the economic crisis, in what it follows we will focus on some qualitative aspects of the economic crisis effects.

Thus, it is interesting to present to what extent, what we mean by human capital, has been affected by the economic crisis.

But, what is the human capital? According to Kehinde and Ogunnaike the human capital is that intangible factor of the production that brings human intellect, skills and competences in the production and provision of goods and services. It is that human capability and productivity engendered

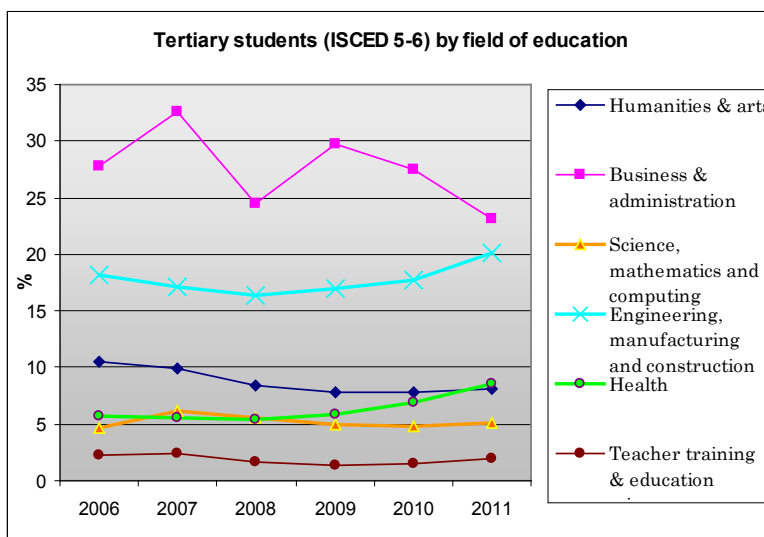
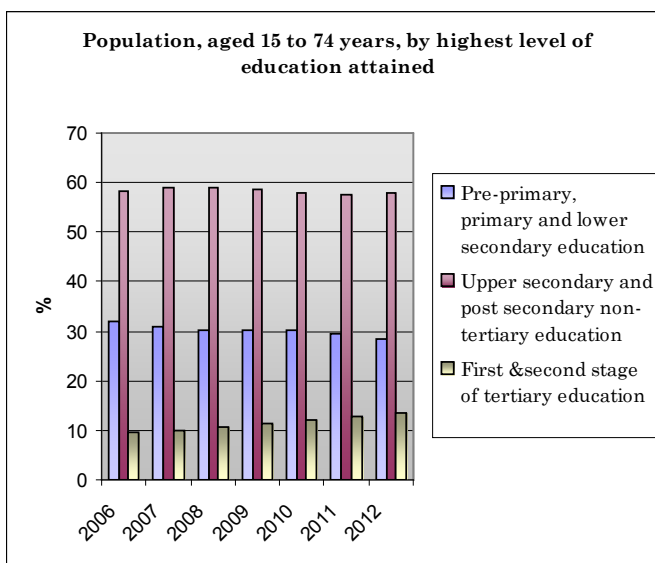
through knowledge and skills acquired from education, training and experience and facilitated by an enabling environment. Human capital is the stock of accumulated expertise that values a workers' productivity. It is the result of the past investment in workers. It enhances their productivity and thus their current and future in comes. (...) In any country there can be no meaningful economic growth without adequate human and natural resources. (Kehinde & Ogunnaike, 2011)

In the spirit of those presented, in the following we'll show the evolution of indicators that are, in the authors' opinion, relevant to the analysis.

First is relevant to present human resource structure aged 15-74 years depending

on the level of education achieved. Eurostat data shows a downward trend in the number of human resources included in the category Pre-primary, primary and lower secondary education, Upper secondary and post-secondary non-tertiary education while for those who have completed some form of higher education the trend was upward.

There have been also changes in the options of human resource regarding the tuition. In the past six years the share of students enrolled in the Health and Engineering has raised, meanwhile those in the business & administration category has fluctuated very much and, finally, recorded a considerable decrease in 2011.



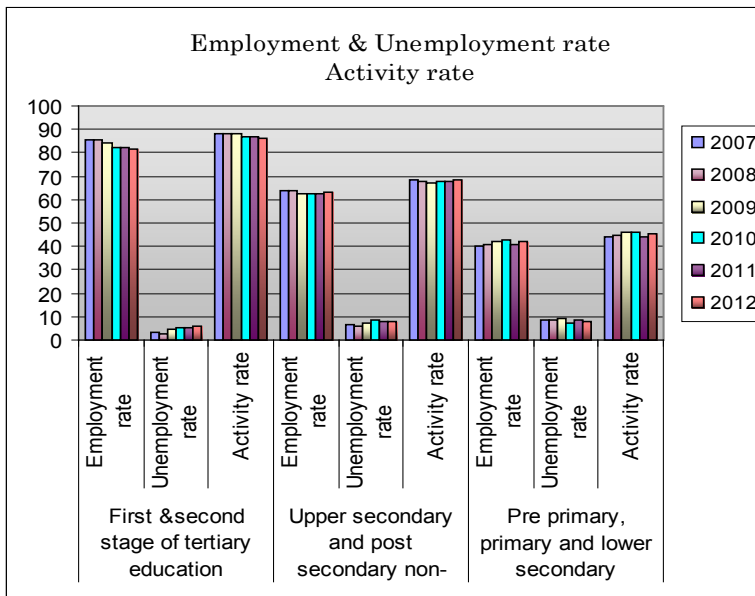
Source: EUROSTAT and author calculation

The situation can be interpreted as positive, the number of students showing greater concern of human resources for the quality of their professional training. But it is prudent to continue the analysis to obtain the relevant conclusions.

The second issue on which we will focus are employment and unemployment indicators from the perspective of educational level of those affected.

Activity rate, employment rate and unemployment rate are presented in the following graph considering the qualitative aspect of labor market and economic development in Romania.

As can be seen, for labor resources located in pre-primary, primary and lower secondary category, both, employment and activity rates, recorded a slightly upward trend, with few exceptions. The unemployment rate for this group fluctuated very little reaching the minimum in 2010. For those in upper secondary and post secondary non tertiary education unemployment rate peaked in 2010 (8.3%) and then began to diminish. Employment rate and activity rate for this category also recorded a minimum in 2010 but then began to increase.



Source: EUROSTAT

Not the same situation can be observed for the category that is the most linked to what we mean by human capital (without considering all labor resources included here as authentic human capital).

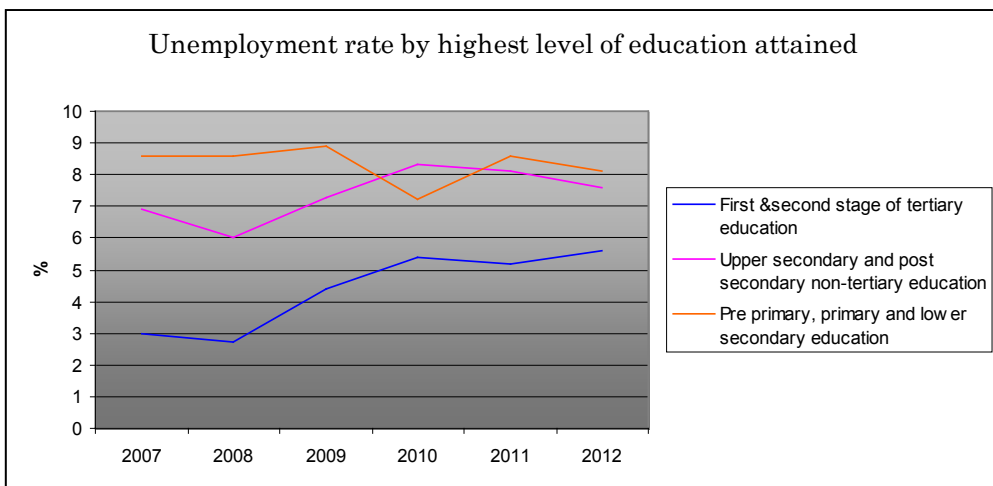
Employment rate and the activity rate of those in first & secondary stage of tertiary education category showed a steady decrease in

the period considered, from 85.8% to 81.4% for the employment rate and from 88.4% to 86.2% for the activity rate.

Along with these developments, the unemployment rate for this group was the only one that has maintained its upward trend after 2011. Lack of jobs for people with superior training can be attributed to the economic

crisis but rising unemployment for this category for such a long period of time generates a loss of human capital that Romania cannot afford it. The lack of a coherent strategy at national level to determine the capitalization of high level trained human resource will bring Romania in the state in which it cannot apply measures aimed to put the economy on a path of recovery. If the time will continue to pass without any measure in this respect,

in Romania will not remain capable people, intellectually, physically and financially, to do this. The educational system, especially at the higher level, is trying to adapt to the labor market demands, but, if the conditions offered to human resource are poor, this will still prefer getting diplomas and certificates in the country (which means big spending for Romanian state) and finding a job abroad.



Source: EUROSTAT and author calculation

For the picture to be complete it is necessary to present official available jobs as they are submitted by National Agency for Employment (NAE).

According to the results of the economic statements of economic agents on job vacancies, in the National Agency for Employment (NAE) official records are registered 10 218 jobs, on February 19, 2014.

At national level, people with higher education are offered 1175 jobs while for people with secondary education, vocational education and unskilled are available 9043 jobs from which 13% for unskilled workers. (NAE, 2014). Of all the jobs offered to higher

education graduates more than a third are offered to engineers while for those who attended medical field there is no available job. That given an increasingly number of students opts for higher studies in health. The trend regarding medical graduates is to leave the country and finding jobs abroad. Romania will only spend money preparing these students but will have no benefit from them. It is another proof of financial and human waste. Also, the large number of jobs provided for unqualified people discourages the human resources to invest in its human capital and to find a job on Romanian labor market.

Human resource situation in Romania is a difficult one but this is not only due to the economic crisis but primarily to a lack of valuing it through programs designed to highlight it and to keep it within the country.

Losses are not only quantifiable and their analysis and prevention involve political will. Until then, the human resource in general, the labor one especially, will try to find a way that will ensure their living, more or less decent, more or less legally.

5. Conclusions/Discussions and implications

Conclusions drawn from the data presented so far are:

1. Human resource in Romania, although deeply affected by the economic crisis tried to find a solution for exiting the crisis by its own;

2. Human resource revenue has fluctuated a lot, and do not allow the long time organization of life;

3. A percentage increasingly larger of those affected by unemployment cannot enter the labor market in a reasonable time so they lose their ability to work efficiently.

4. Approximately one in four employees has a job on the black market

5. Human capital is not encouraged nor supported. Consequently, those who can understand and help overcome the economic crisis are either marginalized, emigrate or simply remain inactive.

The entire from the above make up a clear picture of the impact of the economic crisis on human resources in Romania. Legal financial sources to support life are increasingly fewer and frail while black market absorbs increasingly more and more labor resources without alternatives. Highly qualified human resource is more looking towards countries that can provide decent working and life conditions (even if they themselves are going through financial difficulties) and this situation will soon generate an acute shortage of specialists able to restart the social and economic engine in Romania. All this is happening, while a part of the younger generations have quit the fight for their future and the other part loads the social costs of Romania preparing their departure to other horizons. But, this is also a topic of a future research that will address the question, to what extent the young generation can / want and try to develop the Romanian economy and society and to what extent the Romanian State has a strategy in this regard.

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