

## **LABOR ISSUES DURING THE ECONOMIC CRISIS**

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### ***Abstract:***

*The labor market is a special type of market, whose object of transaction is the labor. In modern economies, workers sell their labor services to holders of capital on the labor market.*

*This article aims to show occupancy in the active population in the period following the economic crisis, as well as the share of youth unemployment.*

*The most notable negative effects of the transition towards a market economy are the massive increase in unemployment and a sharp decrease of income under inflation. The main objective pursued is to avoid damage to the stock of human capital by focusing all energies to sustainable human development.*

**Keywords:** labor market, economic crisis, unemployment, occupancy.

**JEL Classification:** F14; J44; E24.

## **1. Introduction**

The labor market in the European Union describes the demographic profile of the workforce, as well as the settlement systems, focused primarily on the free movement of workers and other forms of regulation of the market. Since the formation of the European Economic Community in 1957, the aim of providing workers' freedom of movement helped shape guidelines regarding employment.

The demographic profile of the EU labor market has changed significantly in recent years. The proportion of women employed increased in the past decade, leading to a drop in difference between women and men in the labor market from 11.9% in 2011 to 17.1% in 2000.<sup>1</sup> Migration is a factor influencing this market and the ascension of new Member States, which used the free movement of people to encourage changes in ethnic and national profile on the European labor market. Demographic changes associated with aging workforce have led to the need to introduce new incentives to encourage older employees to continue working for a longer period of time.<sup>2</sup>

Since 1989, the European Union continued to deliver policies for the development of the labor market and hence of labor itself. It can be seen that many targets have remained unchanged over the years: increasing employment, equal opportunities between women and men and eliminating social exclusion measures to promote entrepreneurship, improve quality and productivity, increasing adaptability of workers.

Since 2005, more emphasis began to be put on: the correlation between supply and demand in the labor market and adjusting the education system to the new requirements, work in stages throughout life, active aging and longer periods of work (in terms of the number of years worked by a person), education and training at all levels, improving adaptability of workers and enterprises and the flexibility of labor, lifelong learning and creating diversified training programs, and reducing number of early school leavers, promoting innovative forms of work organizations and the unemployment rate among young people.

## **2. The evolution of real economy**

The evolution of the real economy in the first three quarters of 2009<sup>3</sup> was strongly affected by the economic and financial crisis, given the fact that we are a relatively small economy with a high degree of openness.

Thus, after the fourth quarter of 2008 the GDP growth was only 2.9 % compared to the fourth quarter of 2007, during Q1 2009 gross domestic

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<sup>1</sup> [www.eurostat.ro](http://www.eurostat.ro)

<sup>2</sup> [www.eurofound.europa.eu](http://www.eurofound.europa.eu)

<sup>3</sup> [www.insse.ro](http://www.insse.ro)

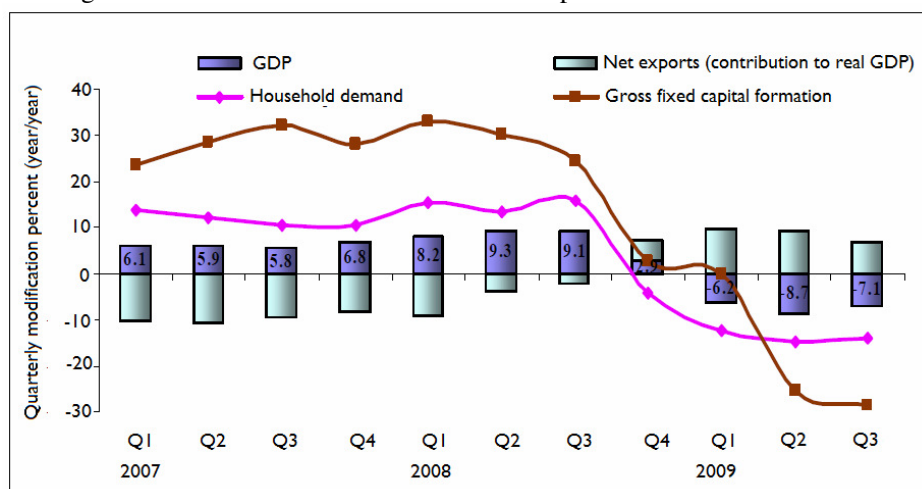
product - in real terms, gross series - decreased by 6.2 % compared to Q1 2008, the downward trend emphasized during Q2 and Q3 2009 when the economy contracted by 8.7 % and 7.1%, respectively.

Considering the comparability of seasonality, statistical data on the evolution of the GDP from the previous quarter highlights the downward trend even since the third quarter of 2008, when it dropped by 0.1 % when compared to the second quarter, followed by a 2.8% reduction in the fourth quarter of 2008. In the first quarter of 2009, decreasing GDP emphasized, reaching 4.6 % compared to the fourth quarter of 2008. In the second quarter the economic downturn began to reduce its magnitude, the gross domestic product falling by 1.1% compared to the first quarter and 0.6% comparing Q3 2009 to Q2 2009.

Over the first nine months of 2009, the negative impact of the crisis was reflected in GDP reduced by 7.1%. The reduction was driven by lower domestic and external demand - 13.7% and 10.1%, respectively. The final domestic demand fell by 11.1%, due to deteriorating credit dynamics and adverse developments and uncertainties associated with the labor market, while gross fixed capital formation decreased by 22.6% due to reducing foreign direct investment inflows and uncertainties related to demand for goods and services.

The only major component that has made a positive contribution to real GDP growth was net exports, i.e. by 8.3 percent due to the decline in exports of goods and services in the first nine months by 10.1%, while imports decreased by 24, 3% (see Figure 1).

Figure 1. Evolution of GDP and its main components between 2007-2009



Source: [www.eurostat.ro](http://www.eurostat.ro)

In 2009 industrial production declined in real terms by 5.5% (gross series), due to lower mining industry by 12.0% and manufacturing by 6.5%. However, monthly developments show some recovery. As a result, in December 2009 industrial production was 11.6% higher than that of December 2008, being the second month of 2009 when industrial output reported growth (in November growth was 5.3 % compared to November 2008).

Active population of working age increased by 0.3 % in the first nine months of 2009 compared to the corresponding period in 2008, and the activity rate increased from 63.1% to 63.4%. The working age employment decreased by 0.6% resulting in a decrease in the employment rate of the working age population from 59.3% to 59%, while the average number of employees (according to ILO methodology) reduced by 0.9%.

The employment rate of working age population was higher for men (65.6% versus 52.4% for women) and for people in rural areas (61.4 % versus 57.3% in urban areas). The employment rate among young people (15-24 years) was 24.9 % , down 0.3 percentage points compared to the corresponding period in 2008. The number of ILO unemployed increased from 578 000 people in Q3 2008 to 664 000 people in Q3 2009, the unemployment rate raising from 5.8 % to 6.7 % .

The exchange rate was an inflationary factor, recording a nominal devaluation at the beginning of the year, followed by relative stability, while during the last month of the year it has recorded an appreciation. Under these conditions, prices of imported goods have been negatively affected, especially in the first half of the year, as well as the price of administered products tied to the euro or the U.S. dollar.

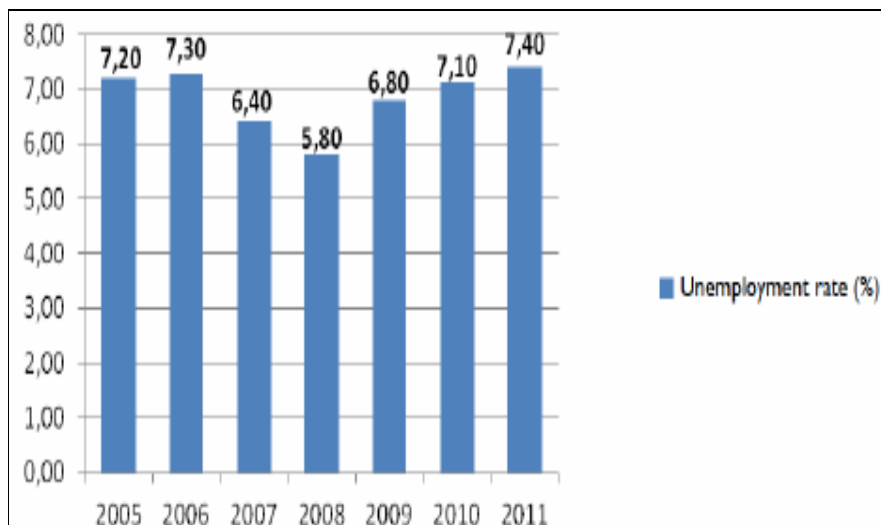
A positive effect in lowering inflation is to reduce excess demand, caused by the financial crisis and global economic events. Simultaneously, the restrictive wage and budgetary policy promoted by the government contributed to disinflation.

### **3. Workforce during the economic crisis**

The economic crisis of 2008 had a negative impact on the employment rate of employment in our country. Employed population decreased from 9 369 000 in 2008 to 9 139 thousand people in 2011. The employment rate of labor force dropped by about 2 percent in this period.

The unemployment rate in our country has increased significantly in recent years. This growth came gradually to 7.4 percent in 2011, compared to 5.8 percent in 2008, representing a difference of 1.6 percent (see figure 2).

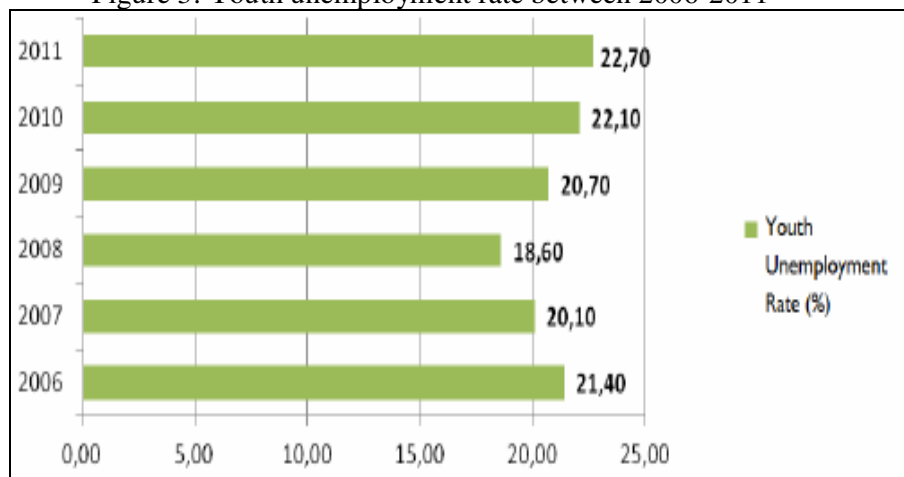
Figure 2. Changes in unemployment rate in Romania during 2005-2011



Source: www.insse.ro

A significant increase in unemployment occurred for young people<sup>1</sup>, with a difference of 4.1 percentage points from 18.6% in 2008 to 22.7% in 2011 (see figure 3).

Figure 3. Youth unemployment rate between 2006-2011



Source: www.insse.ro

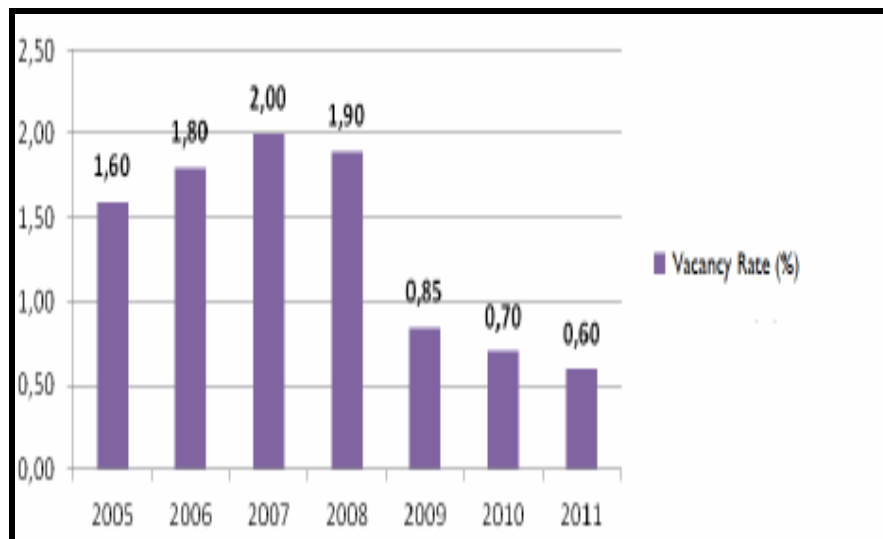
<sup>1</sup> Mariana Bălan – coordonator-, (2013), „Forța de muncă tânără: oportunități și provocări ale integrării europene”, Editura Mustang

The labor market is characterized by carrying out complex operations regarding transactions having work as object. When transactions are made at the level of an economic entity, like national economy, economic branch/sub-branch or business, labor demand, represented by the number of jobs available at any given time meets the job offer, made up of those willing to provide a qualified labor in exchange for money.

Vacancy rate changes in Romania in the period 2005-2012 led to a drastic decrease of these.

Unemployment rate is closely related to vacancies. As can be seen, vacancy rate decreased drastically since the beginning of the crisis to the end of last year (see Figure 4). The percentage of vacancies ranged between 1.6% and 2% in 2005-2008, to around 0.6 percent in 2011.

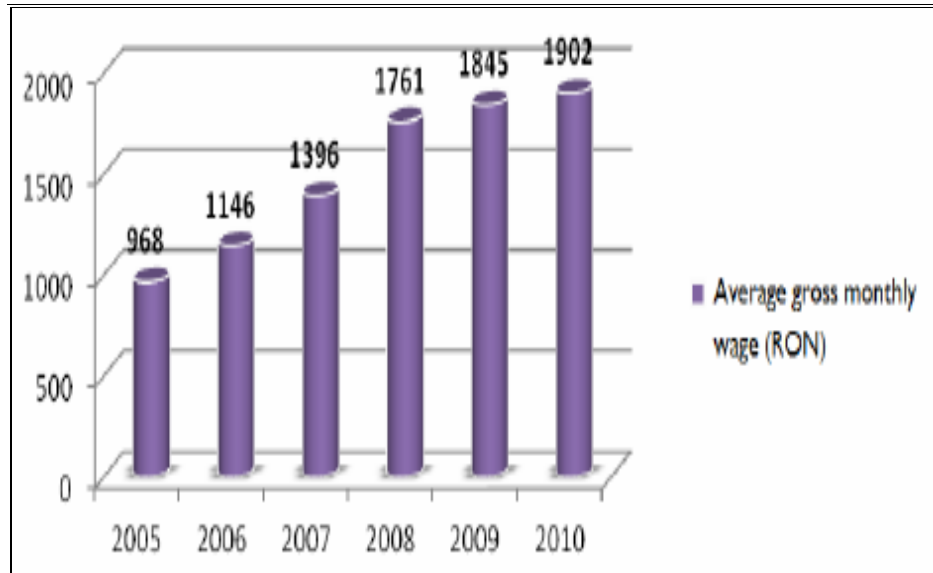
Figure 4. Vacancy percentage in Romania during 2005-2012



Source: [www.insse.ro](http://www.insse.ro)

Amid all fluctuations in the labor market in terms of gross income, its continuous growth throughout the period 2005-2010 can be easily noticed: it reached 1 903 lei in 2010, up from 968 in 2005 (see Figure 5)

Figure 5. Average gross wage developments in Romania between 2005-2011



Source: [www.insse.ro](http://www.insse.ro)

### Conclusions

In the years between 2005 and 2008, employment in the active population was higher than in the immediate aftermath of the crisis, when the number of employees has experienced a rather drastic reduction. Also, many companies have closed their doors and many public institutions laid off large numbers of employees. This has resulted in not only an increase in unemployment, but also in a decrease in quantity of available jobs.

Regarding the unemployment rate among young people, our country has never recorded a very low level of this indicator. There is of course a drastic increase in the number of young unemployed from 2008 to 2011, by 4.1 percent. It seems that the labor market in Romania is hard to be penetrated by those aged between 16 and 25 years old.

One reasonable explanation could reside in the fact that, in our country, only since 2011 a rather significant importance was given to the correlation between studies and labor market. There are not many companies that offer internship programs and then be willing to hire young graduates. Romanian state should start researching market needs and provide schools the necessary data in order for them to be able to offer new employers or employees that are able to meet existing requirements.

This economic crisis still had a beneficial effect: it made us realize how important and necessary are speciality studies to us. If we really want to deal with the European and global economy, we must prepare ourselves

so that we can demonstrate that we are able to provide adequately trained persons for such labor markets.

It is as well important to promote the phenomenon of "active aging" and provide opportunities for all those who want to work and build a better life.

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