

LABOUR PRODUCTIVITY AT THE NATIONAL LEVEL

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Abstract:

The purpose of the study is to provide a broad vision and objectives of the dynamics of labor and employment levels correlated with demographic population in the medium and long term.

That's why we chose to perform an analysis on labor productivity at the national level as well as a comparison with other European Union countries at a similar level of economic development of Romania.

In the first part we present different approaches of theorists in the field of labor productivity, which show the importance of this productivity indicator for an economy or in an organization, the utility and ways of interpreting the determined factors. The study refers to productivity in Romania compared to other EU countries. It presents an overview of current labor market in our country, an analysis of the effectiveness of each economic sector workers and a comparison with other EU countries.

Keywords: *productivity; labor market; national economy; economic growth.*

JEL Codes: E24; O11; F41.

1. Introduction

Productivity is and will remain an important indicator for any country, both at micro and at the macroeconomic level and the basic purpose of researches and analyses is the improvement and growth of it. (Varjan, 2005)

If there is a decrease in productivity, it will cause entering into a downward spiral of the economy. On the other hand, improving productivity will create an upward spiral that leads to a better use of resources and a better quality of human resources, which at its turn will further increase productivity. (Preda, 2002)

Labor productivity concerns the efficiency of work, expressed by the relationship between quantity of products produced and consumed workload. (Goschin et al, 2009). Over time it has seen many approaches and studies from both theorists in the field of economic and sociological field. Starting from the most important production factor of any economic activity that is labor, W. Petty stated that "work is the father of wealth" and in Adam Smith's conception the main source of wealth is labor. But not all work in society produces wealth, but only "work that adds value to another" is productive, while work "that does not add value to another" is unproductive. According to Smith, increasing the number of workers employed in the productive sector depends on "increasing capital or funds for their maintenance." Smith also argues that the direct effect of division of labor is productivity growth of the specialized worker. "The division of labor is the essential cause of increasing volume and labor productivity." Marx (2009)

In his turn, J. M. Keynes, referring to the role of labor in the whole economic life, states that "everything is produced by work, aided by what were once named craftsmanship and today is called technique, and by the natural resources that do not cost anything or get in return an annuity". Labor productivity growth reflects both the interplay between structural elements of production factors and socio-economic report of the society. Productivity cannot be regarded in isolation, but in a company or workplace, it is inseparably linked to the activity of several industries.

Labor productivity expresses the efficiency with which labor is expended per unit of product. Real knowledge of work efficiency also involves appreciation or dimensioning of consumption of inputs, i.e. determining the quantities consumed and the time required making the products. The same volume of inputs consumed may contain different amounts of work, so the value of products can vary. (Totan et al., 2008)

Productivity reflects as well the production choices of local and foreign companies in the area. Both, productivity of industries outside the region and of the local industries are fundamental in the process of increasing competitiveness. In general, productivity growth is seen in increased investment for human resource development, in the effective allocation of capital (in order to avoid capital flight) and the effective use of technology (e.g., computers, Internet systems, work processes). (Aceleanu et al., 2009)

2. Labor market analysis

According to studies in the field, there are currently numerous viewpoints on the structure of the workforce. Thus, the structure of employment can be seen in the light of participation in economic activity or employment in that age groups, branches and economic sectors, of the area of residence and gender, occupations, etc. Often, the criteria by which labor is divided are combined. (Burghilea et al, 2014)

The labor market, in broad sense, includes issues related to employment, unemployment and work quality, productivity, earnings and labor costs. This makes the labor market to be among the key topics in social and political debates in the EU.

In Romania the employment rate of the working age population (15-64 years) was 59.5% in the fourth quarter of 2013, 1.5 percentage points lower than the previous quarter, and the unemployment rate reached 7.2%.

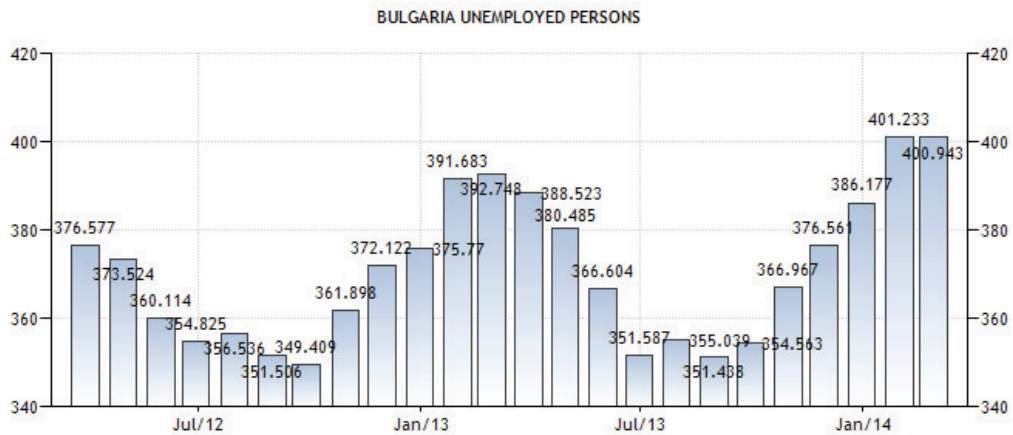
The employment rate among men in the labor market was 67%, compared to 51.9% for women and employment of rural residents was 59.8% compared to 59.2% in urban areas in 2013 and the activity rate of the population in working age (15-64 years) was 64.3%.

At the age category 20-64 years, the employment rate was 63.7% at a distance of 6.3 percentage points compared to the national target of 70% set in the context of the Europe 2020 Strategy. Among youth (age group 15-24), the employment rate was 22.8%. Regarding the unemployment rate, in the last quarter of 2013 it was 7.2%, up from both the previous quarter (7%) and the corresponding quarter of the previous year (6.9%). By gender, the spread between the two rates of unemployment in the previous year was 1.2 percentage points, 7.8% for men and 6.6% for women, and based on residential environments, the spread was 3.6 percentage points: 8.8% for urban areas, compared to 5.2% in rural areas. Unemployment reached the highest level (24.3%) among youth (15-24 years). In the fourth quarter of 2013, Romania's active population was 9,912,000 people, of which 9.194 million people were occupied and 718,000 were unemployed. Among the occupied population, 6,279,000 people were employed.

In Europe, the lowest unemployment rate among EU countries was recorded at the end of 2013 in Austria, where only 4.8% of them did not have a job, according to the latest Eurostat data. Germany ranks second in the rankings, with an unemployment rate of 5.2%, followed by Luxembourg with 6.1%. The unemployment rate in the 28 European Union countries was 10.9% at the end of 2013, up 0.1% over the same period last year. Romania ranks 8th with an unemployment rate of 7.3%, slightly less than in the UK, 7.4%. On the opposite side stand Greece and Spain, with unemployment rates of 27.4% and 26.7% respectively. Bulgaria is also among the countries with a high rate of unemployment with 12.9%, and very close is Poland with a difference of only 2.7 percentage points, recording 10.2% and Hungary which had at the end of 2013 an unemployment rate of 9.5%. At the end of the latest year, the unemployment rate rose in 14 EU countries and decreased in the other 14. The largest increase in unemployment was recorded in Cyprus, from 13.3% to 17.3%. Italians are also struggling with an increase; in the latter part of 2013 the unemployment rate inflation reached 12.7% versus 11.3% in the same period of the year before.

The largest decrease in the unemployment rate was recorded in Ireland, where the unemployment rate decreased from 14.3%, as it was last year, to 12.3%. The non-EU country with the lowest unemployment rate is Monaco, which has an unemployment rate of 0%. Monaco is a tax haven that attracts many of the rich of the world, in particular due to the lack of income tax.

The number of unemployed in Bulgaria fell to 400,940 in February of 2014, from 401,230 as were registered in January 2014. The average number of unemployed people in Bulgaria is 437,490 thousand from 1990 to 2014.



Source: www.tradingeconomics.com

Figure 1. Bulgaria unemployed persons

Unemployment has reached 726,360 in April of 2000, increased significantly compared to June 1990 22 000 (see figure 1).

In Hungary the number of unemployed fell to 379,418 in January 2014 from 392,500 in December 2013. The average of unemployed people in Hungary is 338,076.64 from 1999 to 2014, reaching 508,736 in February 2013 and 227,000 in October 2001 (see figure 2).



Source: www.tradingeconomics.com

Figure 2. Hungary unemployed persons

In Poland the number of unemployed persons also decreased to 2.184.000 in March of 2014 from 2.255.900 in February 2014. Average unemployment in Poland is 2,292,070, calculated from 1990 to 2014 reaching a total of 3,344,200 in February 2003 and 56,000 in January 1990 (see figure 3).



Source: www.tradingeconomics.com

Figure 3. Poland unemployed persons

3. Labor productivity by activity sectors

The share of agriculture in gross domestic product (GDP) of Romania was reduced to less than half the period 2004 to 2012, according to World Bank (WB). Agriculture in 2004 reached 13% of GDP, but in recent years has continuously reduced contribution down to 6% in 2013. Romania still remains among the EU countries with the highest share of agriculture in GDP. The decrease in the share of agriculture in the economy is not caused by a reduction in absolute numbers of agribusiness, but slower growth than other sectors of the economy. The largest decrease occurred in 2005, when Romanian agriculture has fallen to 10% of GDP. Even in this situation, the percentage for agribusiness in Romania's GDP is much higher than the share of agriculture in the global economy, which is somewhere 3 - 3.5% of world GDP. In the European Union (EU), according to the World Bank in 2012, the largest share of agriculture in GDP was recorded in Bulgaria (6.4%), followed by Romania (6%), Croatia (5%), Latvia (4.4%) and Slovakia (3.9%).

Our country is ranked fifth in Europe on arable land which gives a huge agricultural potential. However, the extremely high number of employees (over 2 million i.e. 2.5 times more than in France), operating on small areas, lack of equipment and irrigation networks and poor training of those exploiting lands place us last in the top regarding productivity. Labor productivity in agriculture is disastrous, given that over a quarter of the employed population is working in this sector. The rest of the occupied population needs to catch up the productivity gap created by this sector. In Romania, 1,100 lei, i.e. 6.9 lei per hour is the average net wage in agriculture, one of the lowest in the economy. In these conditions, many Romanians are moving towards European countries where wages can reach up to 1,800 euros per month. Among the states that offer the best wages in agriculture are France and Germany.

Romania's economy has become more industry supported during the latest 14 years, an area which contribute about one third of the gross domestic product (GDP), while reducing their dependence on agriculture. Industry increased its contribution to GDP for 14 years through exports, from 25% to 30%, and the economy has changed significantly, both quantitative and qualitative. The share of industry in GDP increased from 25% in 2000-2004 to 30% in 2013. (Geamanu, 2014). Over the last 14 years the lowest share of industry in GDP, 23-24% was recorded in 2008 - 2009. Analyzing the contribution of industry to GDP in the region of Central and Eastern Europe, it is found that Romania - with a share of 30% in 2013 - is second after Hungary (42%), surpassing Bulgaria and Poland, where the

share of industry is 22%. The conclusion is that the national economy recorded a significant degree of industrialization. Productivity in most sectors of manufacturing is below average. The sectors with the highest productivity, oil processing and tobacco industry, are directed towards distribution and domestic consumption. Other sectors with above average productivity are also oriented towards domestic consumption: beverage and pharmaceutical industries. The only export-oriented sectors with above-average productivity are metallurgy and manufacture of road transport vehicles, but these are still close to the average values. Traditional exporting industries such as: textile, leather or mobile record low productivity. Manufacturing of computers, machines and equipment are probably still labor intensive, since the yields were below average, so they have a reduced innovation component and look more like textile industry in this regard. Low productivity of metal construction sector is probably explained by the massive drop in production amid the housing crisis. (Burghelea, 2009) Industry increased its contribution to GDP in the last five years through exports, following after a decline in 2003-2008. But industry cannot tow the economy by itself, its potential being limited given the share of only one-third of GDP. In these circumstances a revival of domestic demand is required to see a rise of over 4% of the economy. Salaries in this sector are between minimum 1000 lei and can reach up to 4,000 lei, by branch of activity. In general, manufacturing wages are lower, averaging 2,000 lei, and in sectors such as mining and quarrying they exceed 3,500 lei while in the production and supply of electricity, gas, steam and air conditioning they are 3000 lei per month.

Construction contribution to GDP increased from 5% to 8% in 2013. The construction sector in GDP has doubled in 2008-2009, to 11%, but the sector has been hit by the recession, the contribution to growth is declining to 8-9%. An average income in this sector is 1,300 lei.

The share of trade fell from 18% to 11% in recent years. After the 2008-2009 trade reached 19% of GDP subsequently the trend was descendent, the share dropping to 11% in 2013. With a 5.1% contribution of tourism to GDP, Romania appears on last place in Europe, surpassed among others by Albania (16.7% of GDP), Bulgaria (13.3%), Hungary (10.6%), Czech Republic (8.4%) and Slovakia (6%) according to a Report of the World Tourism Council (WTTC). The total contribution of tourism to GDP includes businesses directly generated by this activity, such as accommodation, transport, attractions, entertainment, shopping and food expenses and investments in tourism and hospitality, plus indirectly generated income such as earnings of suppliers serving projects or tourism facilities and expenses incurred by employees in the sector in the economy. Tourism had a total contribution of 33.1 billion lei in year 2013 (9.9 billion

dollars) to Romanian GDP, of which 10.5 billion (\$ 3.2 billion) is direct contribution. In the sectors of wholesale and retail the average salary reached 1,400 lei, while shipments recorded between 1,500 and 3,500 lei. At the opposite pole there are the hotels and restaurant services where the average income is 800 lei, the difference being that in this area there are also recorded allowances. In the field of information and telecommunications, the average salary ranges from 2,500 to 3,500 lei.

The highest productivity is recorded in a sector (banking and real estate) that stimulate imports and the accumulation of debt, not exports and accumulation of resources. The above average productivity in the financial sector has no ripple effects in the rest of the economy, which expresses high costs of financial intermediation for those who use these services. In the banking sector salaries are relatively high compared to other sectors of activity as intermediary costs for those who use these services are high. Thus the average monthly income is between 2,000 and 4,000 lei. In the real estate sector there is an average income of 1,500 lei, plus commissions on sales.

The service sector productivity is substantially lower than the industrial sector (both before and during its crisis), contrary to expectations and European experience, which means that even by changing the composition of employment by industry towards the service sector, labor productivity would not increase in Romania and convergence with the EU will not be helped. One possible explanation lies in the underground economy, very present in the service sector (so that the value added of this sector is not fully reported). Changing economic structure from low value-added sectors such as agriculture, to high value-added industries is beneficial and contributes to meeting real convergence criteria for the euro area, as analysts explained.

4. Conclusions

The article aims to highlight the need to consider any labor productivity in the economy and the way it influences the evolution and growth in the long term. Analysis of the efficiency of each economic sector revealed that average productivity over the financial sector has no ripple effects in the rest of the economy, apart from boosting imports and debt accumulation at the expense of exports and accumulation of resources. Labor productivity in agriculture is disastrous, despite the huge potential available, given that more than a quarter of the employed population is working in this sector. And the gap created has to be recovered in other sectors. The same efficiency problem is also found in the service sector, contrary to expectations and European experience, failing to grow by

changing occupational structure from the industry towards services. At the industry level productivity is high although it remains below the EU average in some sectors.

The only export-oriented sectors and with an average productivity are metallurgy and manufacture of motor vehicles. However Romania exports products with low added value, such as raw materials or semi-finished products instead of those that would have an added value.

Accordingly, in an emerging society like ours where major changes in the last twenty years and the old mentality affect people's perceptions of work and economic environment; it is important to create a balance to assist in the growth and homogeneous development of the economy, through the human factor productivity growth.

At organizational level, motivation is a factor that helps develop human capital and thus to increase its performance. (Pasa et al, 2005) Motivation is essential to mental activity and personality development. At the State level, however, state bodies and the European Union is concerned of creating jobs, increasing employment and designing training and retraining programs that help intellectual development of people.

But besides all this, stimulus is also needed for employed persons by creating better working conditions, the development and modernization of potential sectors to prevent their migration to developed countries that offer these benefits. (Vasile et al., 2009)

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