

## Interdependence between labor market and unemployment in the post-crisis economy

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**Abstract.** *Labor market is the main model of demand and supply, between employer and employee. This partnership decide division gain-wages, ratio of accumulation (the main function in any society) and household consumption, ratio between economic efficiency and social equity, earned income of both partners, from the perspective of present and future generations, rhythm and quality of economic development, economic progress and democratic character of capitalist society, cohesion and social peace, essential for economic and social progress.*

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**JEL Classification:** E24, F16, R23.

**REL Classification:** 8G, 12I.

## 1. Introduction

Labor factor, to be used in the activities of modern society, should be purchased from a special called labor market. Land and natural resources markets, labor markets, capital, goods and services market, operating simultaneously interdependent, they form a system which regulates market phenomena and processes in the economy.

Any modern national economy acts as a structured set of markets, which communicate with each other. All markets are interdependent, so that the phenomena that occur on one of them affect all others. In markets are traded both inputs and goods and services as a result of economic activity. The labor market is one of the chief components of market inputs; it occupies an important place in this market, just as labor is the most important component inputs (ASE, Catedra de economie și politici economice, 2005, pp. 267-271).

Interdependence of markets is the direct effect of correlations between the activities of market economy and, ultimately, between economic needs and economic resources of a human community. It is a known fact that in every moment of life of human communities, needs are conditioning business, providing what and how much should be produced of each good and service. This does not mean, automatically, the company can produce all the goods and services. Solvent needs aggregate demand turns of goods and services and economic resources in factors of production that support the supply of goods and services.

EU labor market describes the demographic profile of the workforce, and settlement systems, focused on the free movement of workers and other forms of regulation of this market. Since the formation of the European Economic Community in 1957, to provide freedom of movement of workers helped shape guidelines regarding labor market.

Demographic profile of the EU labor market has changed significantly in recent years. The proportion of employed women increased in the last decade so that the difference between men and women in the labor market decreased to 11.9% in 2011, compared to 17.1% in 2000. Migration is a factor influencing this market and the rise of new Member States, which used the free movement of people to encourage changes in ethnic and national profile European labor market. Demographic changes associated with the aging workforce have led to the need to introduce new incentives to encourage older workers to continue working for a longer period of time.

## 2. Unemployment is regarded as a determinant of loss of competitiveness in the labor market

Since early 1990 the Romanian population decreased by 3.4% (or 800,000), reaching 22.4 million in 2001. In the mid-1990s, due to deterioration of economic situation people's migration has changed to rural areas. Decrease labor force participation particularly affected younger age group and the population included in the group aged 65 years and over is a high and even a feature Romania's participation in the labor force. In 1990, employment was 10.84 million people, leading in 1999 to 8,420,000 people. In 1990, total employment fell by 20%.

Categories of people unequally affected by unemployment, but the most affected are young. Time required to find a job is reduced as long as the level of education is higher, thus leading to a high rate of youth unemployment. Unemployment has affected more women than men until 1998. Thus, over 50% of the unemployed were women.

Since the beginning of the transition, the first people who were affected by the redundancies were women. However, after 1998, the percentage among unemployed men was higher. The cause was the restructuring that took place in the industry.

Thanks to the early retirement and discourage people after 50 years of age, men are more affected. With an unemployment rate of 21.7% in 2002, people aged 14-24 years are the most affected by unemployment, according to labor force surveys, surveys that provide information on the effect ILO unemployment (Bureau International Labor Organization). Thus, one of two ILO unemployed has less than 24 years.

At the beginning of the reporting period there is some balance between the number of unemployed among women and among men, in the course of time the situation began to change, unemployment representing a bigger problem for men than for women because the number of unemployed women decreased steadily from year to year, while the number of unemployed men increased gradually, which means that in recent years, the labor market in Romania began to note the trend of feminization of labor resources. Out of the total unemployed registered, men hold the majority, their share being of approximately 60% in early 2011.

I believe that the high percentage of women in various economic sectors such as education, trade, banking and real estate is the main reason due to which female unemployment decreased. One must also consider the fact that out of the economically active population, female weight is less than of men, and accounting the demographic burden, to perpetuate their species, their duties.

In terms of the distribution of unemployment between the two population segments, the number of unemployed in urban areas is 1.8 times higher than those in rural areas, but should be kept in mind that the population development on environments level still looks pretty much the same. In urban areas, the unemployment rate significantly exceeds that of rural areas, in the second quarter of 2011 a difference of three percentage points being attained. Not even in the previous years the situation was different, the biggest difference (8%) between the two rates being recorded in 2000. Current situation (8.5% in urban and 5.5% in rural areas) I think that is mainly due to slow economic restructuring and permanent alternation between periods of positive growth and negative growth.

Among young people aged less than 24 years, the unemployment rate is 10 times higher for the unemployed with high school or middle school, and about eight times higher for unemployed with post-secondary education or higher. There are a number of occupational features characterizing unemployment related to areas and branches that supply the stock of unemployment, as well as by characteristics related to educational level of the unemployed.

Therefore, the year 2009 has preserved trends occurred in the autumn of 2008, of continued growth in terms of unemployment. In 2010, the labor market was influenced by the economic and financial crisis, so that unemployment registered a significant increase.

Increasing the unemployment benefit, i.e. "technical unemployment" is a measure that has been taken by the Government in 2009 and 2010, when the unemployment rate has not grown on far downturn manifested in the Romanian economy. Vacancies reported by employers in 2010 were slightly higher than in 2009.

Jobs were created in 2010, in fields such as: manufacture of clothing, protection and clearance activities, construction, life insurance activities.

During 2010, they were given more unemployed workers from layoffs that occurred in areas such as public administration and defense, social security insurance, land transport, transport via pipelines, construction of buildings, civil engineering works.

During 2010, the counties most affected by the redundancies were: Timis, Suceava, Prahova, Hunedoara and Bucharest. Unemployment decreased in the following counties: Ilfov and Bucharest.

Compared with 2010, in 2011 the unemployment rate has decreased. So in reference vacancies were recorded as: product manager, unskilled workers in the clothing industry, the packaging etc.

Yet fewer jobs due to the crisis is well maintained to reduce economic activity by the employer. Defining for 2011 is that the percentage of unemployed was lower than the unpaid indemnity (Burghelea, 2011b, pp. 48-67).

At the territorial level, 2011 was the year in which they recorded the highest unemployment rates in the counties of Mehedinti and Dolj; in Valcea County unemployment rate was the lowest.

In Romanian economy, global financial and economic crisis, in 2011, was felt with an intensity much lower than in 2010, thus knowing a significant decrease unemployment. Unemployment has stabilized in 2011 at the rate of 7.3% and is still very close to the peak of 7.5% reached by Romania after the recession (in the fourth quarter of 2008). In 2012, at the end of February, the national unemployment rate was 5.27%.

### 3. Population vulnerability to the economic crisis

Unemployment among young people aged 15-24 years is very high (21.8%), the most affected being those between 15-19 years (29.3%). Thus, in early 2011 the unemployment rate for this age group, but in rural areas, reached the highest level of 29.1%. Unemployment affected particularly young people, especially young people entering the labor market for the first time. Regarded as the most vulnerable population against unemployment, lack of jobs for young people remains a serious problem facing the labor market in Romania, especially if we take into account the global crisis that affected the whole economy. An explanation of this development would be insufficient jobs attractive to young people, given their higher expectations, but also a higher level of training. As expected, the lowest unemployment rate was in the 60-64 years group, a rate of 1%.

ILO unemployment rate in the third quarter of 2011 was 7.3%, up from the third quarter of 2010 and down from the fourth quarter of 2009, with an unemployment rate of 7.5%. By gender, the difference between the two ILO unemployment rates was 1.4 percentage points (7.9% for men and 6.5% for women), and 4 percentage points residential (9% in urban areas compared 5% for rural). ILO unemployment rate was the highest (22.8%) of young people (15-24 years). Unemployment affected to a greater extent people with low and medium education, the unemployment rate was 8.2% and 7.8%, much higher than that recorded for the unemployed with higher education (4.9 %).

ILO long-term unemployment (unemployed for a year and over) was 2.8%.

The incidence of long-term ILO unemployment (percentage of people unemployed for a year and over the total unemployed) manifested more strongly

for men - 31.6% compared to 29.8% for women in urban areas - 32.2%, compared to 28.7% in rural areas.

Unemployment in Romania has not particular developments while he constantly maintained a high value, most unemployment being represented by long-term unemployment. This type of unemployment persistence is due to the reduced capacity of the Romanian economy to create jobs, but also by the labor market rigidity, rigidity which hinders harmonization of supply and demand. However, labor market faces a permanent imbalance due to staff shortages in certain industries.

In Romania, since 2011, amid the resumption of economic growth and employment is expected to improve, creating the conditions for job growth and improve employment for people aged 20-64 years to achieve stated objective in Europe 2020. It also predicts that unemployment will begin to have a downward trend, the unemployment rate reaching to fall by 1.5 percentage points in 2015 compared with 2010 (Table 1).

**Table 1.** *Labor rate*

	2010	2011	2012	2013	2014
Employment rate (20-64 years)	63.3	63.9	64.3	64.7	65.5
Men	70.8	71.6	72.0	72.4	73.1
Women	55.9	56.1	56.5	57.0	57.8
Unemployment rate (ILO %)	7.3	6.4	6.2	6.0	5.8

**Source:** www.cnp.ro

Over time it has been shown that unemployment causes problems both at the family, individual and national level, through the effects they produce: reduced income, increased welfare costs, and reduced labor efficiency, increased social tensions, all leading to decreased quality of life.

From the literature it follows that the unemployment rate tends to decrease as the level of education attained is higher.

One of the main reasons of labor market shortages lies in correlation with the number of unemployed vacancies existing in an economy. Therefore, while there may be segments of the labor market in which we have a surplus of labor, which offer higher wages and better working conditions in segments where there is shortage of labor which in turn is characterized by the persistence of relatively high number of vacancies because salaries are appropriated by the minimum wage and where working conditions are difficult. Poor compensation surplus with labor shortages can be caused both by loss of regional migration phenomenon and the regional development gap so that developed regions tend to register vacancies in sectors that are paid less when poor regions recorded surplus labor in most

segments of the labor market. Also if the less developed regions are characterized by high labor migration then they could have a high rate in the number of vacancies in certain sectors. Therefore, by analyzing the relationship between unemployment and vacancies we can provide some important information about the degree of labor market flexibility and gaps between regions.

The current economic crisis has seriously affected the labor market in the European Union and its impact varies from state to state: some countries have managed to maintain high employment levels and low unemployment by preserving the employment and creating new jobs combined with active labor policies of labor market expansion.

If the economic crisis seriously affected the labor market, we must not forget the attempts made to minimize impact on the great mass of people (Burghelea, 2011a, pp. 137-147). Among anti-crisis measures adopted in 2009-2011 that would also help to reduce unemployment were: the introduction of a minimum pension and extend unemployment subsidy period for three months, avoiding redundancies and supporting companies through uncollected all taxes and contributions social security for some time. In this respect, companies have been forced to cease production, sent employees in technical unemployment, paying them 75% of salary, which were exempted from all taxes on Social Security.

Thus, in April 2009, 2,000 companies took advantage of the measure and 140,000 employees were temporarily laid off.

There were followed measures for adjustment of public service for employment assistance, to avoid long-term unemployment and inactivity by increasing monitoring employers and notified holidays, by improving outplacement services.

#### 4. Post-crisis prospects for employment growth nationally

Forecasts for Romania show a significant reduction in population from 20,254 million in 2011 to 19,857 people in 2035, and 17,308 people in 2060. As a result, the country's population will reduce by 7.7% in 2035 and 19.8% in 2060.

This trend related to population aging will significantly influence the employment being in a downtrend.

**Table 2.** *Trend of population aging*

	Percentage of people aged 65+		Percentage of people aged 80+		Dependency ratio age limit	
	2011	2060	2011	2060	2011	2060
Population	15.1	35.2	3.4	13.2	21.5	64.9

**Source:** [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-08062011-BP/EN/3-08062011-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-08062011-BP/EN/3-08062011-BP-EN.PDF).

One can be noticed how the percentage of people aged over 65 tends to double while the percentage of people aged over 80 years will be more than four times more than in 2011.

A solution for improving the aging of the population, would be the rising of the retirement age which could act positively on both ends: it would increase labor force participation and would decrease the number of new retirees. Romania has applied such a measure by the 2000 (Law no. 19/2000) reform, gradually rising the retirement age from 57 for women and 62 for men, to 60 and 65, respectively.

We must also be concerned with stopping the migration of gifted young people. This phenomenon is known as "brain drain" and involves movements from poor countries to rich ones usually highly trained young professional. Migration of young people concerned are likely to obtain higher and more stable income, living conditions superior professional achievement, escape poverty and political and religious repression.

Due to economic disparities between Romania and developed countries, numerous restructurings done in industry and a still subsistence agriculture have increased the number of unemployed and their determination to seek work abroad. The trend of migration is encouraged mainly by higher earnings provided by outside.

Employment offices in Romania face real problems in the organization; they failed to capture all aspects of labor supply and demand flows, conversion and training.

In Romania, the labor demand is considerably higher than supply. A source of imbalance in the labor market is the restructuring of large industries generating unemployment. For example, people redundant due to restructuring of mining, engineering and steel industry can not easily be classified in other industries<sup>(1)</sup>.

To prevent such failures occupational and geographical mobility could be improved, capacity development of employment mediation services to labour force and also the development of policies to prevent skills shortages.

You also need to follow the correlation, by means of as varied structures and contents of education and training of the workforce and the current and future needs of the workforce.

Attractive measures aimed at creating jobs, especially in areas that could be developed in our country, such as agriculture, infrastructure development, environmental protection could stop labor migration.

Finding unity between different labor market states, currently in Romania there are big differences between sectors and industries, in terms of the relationship



between labor demand and supply potential could actually work to improve quality of life.

Achieving employment structure based on raising productivity by adopting a model of economic growth based on increasing employment and training programs, retraining, outplacement and labor flexibility could make our country a partner reliable in the European Union.

### Conclusions

Reducing unemployment is one of the most serious problems for governments and social forces in each country, and of particular importance is held timeframe envisaged when promoted measures to improve employment (not infrequently measures short-term imbalances caused long term). These measures are aimed interdependent society, businesses and the unemployed.

20-30 years ago, the average unemployment rate was 3.2% in the world, and now most countries the rate reached 10% and over 10% unemployment called "massive and chronic" (Dinu et al., 2004, pp. 82-86).

Passive helping policies are applied after a person becomes unemployed; they have a defensive character, and lead to an increase in government spending generating strong inflationary effects.

The active policies intervene directly in the labor market to increase employment levels to the upper limit, that of total employment. These policies are offensive and are of three main types: efforts to facilitate entry into contact bidders and interested persons job, retraining programs for the unemployed, creating jobs.

Labor market flexibility is the primary way of modeling labor supply, mainly in this way and not only by employment and administrative-legislative means.

Alarming increase in unemployment levels associated with a decrease in employment will be issues of particular interest for the functioning of an economy.

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**Note**

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<sup>(1)</sup> See <http://www.anofm.ro/files/3/Pilonul%20I.pdf>

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