THE IMPACT OF THE ECONOMIC CRISIS ON THE HUMAN CAPITAL

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Abstract

The dissertation refers to the impact of the economic crisis on the human capital. In order to underline the wide range of aspects related to this subject, I have analysed the labour market quantitative and qualitative indicators during the economic crises. The human capital is analysed having in view the evolution of the actual society towards an informational one, a process imposing qualitative and quantitative transformations in education and professional training.

Key-words: *human capital, competences, adaptability, education, continuous training, employment crisis*

JEL Classification: J_{21}, O_{20}, G_{01}

Introduction

World economy is facing one of the most serious post-World War II crisis. Romania, in exchange, is facing the second serious crisis in the last 20 years, having in view the economic regression over one decade, reflected in the decrease in the GDP. In 1999, the GDP value is only 73,6% of the one recorded in 1989. After 2004, the economic recovery takes shape. The current world crisis deepens the Romanian economic instability, questioning the institutions' capacity to restore the short-term balance.

Theoretically and practically, analysing the underlying causes and factors of the current crisis raises the issue of quantifying the market's role in regulating the economic life in order to avoid serious imbalances. According to some economists, the „invisible hand" market demonstrates once again the incapacity to maintain in the long run the relative balance at national and global level, through self-regulation. The states act more firmly, implementing macroeconomic procedures in order to avoid the severe consequences of the current crisis which may be comparable to the ones generated by the 1929-1933 downturn. Moreover, the state takes partial responsibility for the financial risk facing the banking sphere and the productive units, without avoiding serious bankruptcy cases. The states non-involvement, on the export background, would have entailed severe imbalances at both macroeconomic and world level, impacting the goods and labour market. The crisis impacts also the social field, following downsizing.

The important changes in the contemporary economic landscape, as a result of the domination of the strong transnational companies have influenced the labour market at national and world level, quantitatively, qualitatively and in point of flexibility. Their financial and economic potential, comparable to the GDP of some small but developed countries has been the determining factor for extended and productive activities. The transnational companies undergoing bankruptcy would have hardly measurable consequences both economically and socially by impacting the human capital, therefore deepening the instability on the world labour market. Such effects are by far more significant than the ones generated by the insolvency of small and medium-sized enterprises. Therefore, avoiding major economic and social risks determined by the employment crisis and by the instability on other markets, either from the origin or the destination country, requires the state’s involvement. The Secretary-General of the OCDE highlights: „we must admit that the markets need to be better monitored and regulated and the state shall be bound to allot funds to this end”[1]. The current crisis, through the negative consequences at economic and social level, has brought into discussion the state’s role as a market regulation authority. Anticipating the potential serious imbalances on the current crisis background, the governments have implemented a series of procedures, from subsidizing the economic, monetary units, to becoming shareholders – co-owners of large banks and companies.

The crisis has impacted the labour market variables, the relative balance in point of employment and remuneration. Downsizing takes a new shape, the salaries have been frozen in many countries and are on the decrease, the future employees are in the position to accept lower salaries, although the quality demands are increasing. The labour market in Romania as well as worldwide experiences serious contractions resulting in the employment crisis following the output decrease and a large number of units facing bankruptcy. The employment crisis is marked by quantitative and qualitative imbalances, the latter taking shape especially during the post-crisis period. According to the statistics in point of assessing the crisis impact on the employment quantitative variables, there are major demand/supply imbalances. The pre-crisis boom, although facilitating job increase, is marked by high unemployment rates even in some EU developed Member States.

In a short time, the labour market quantitative indicators experience a decrease following the financial and economic crisis. If in 2008 the employment rate (between 15 and 64 years old) at the EU level (27 countries) is 65,9%, by 4,1% lower than the level provided in the Lisbon Strategy, in 2009, it reaches 64% and is estimated to go down in 2010 as well. The EU employment rate is expressed individually from one country to another and, consequently, the unemployment rate has different values. In Romania, the employment rate in 2008 is 59,0%, one year later it falls to 58% and nowadays it continues to be on the decrease. A supply >

[1] L’Observateur de L’OCDE Nr. 270-271, 2009

demand case highlights the contrast between reality and the Lisbon Strategy objective on reaching a high employment level (70%) in accordance with the knowledge-based society demands and a low unemployment rate. In January 2010, 23 million people from the Euro zone remain unemployed, out of which 3 millions lost their jobs in 2009. Relating to the EU level (27 countries), in February 2010 the unemployment rate reaches 9,6% and is on the increase. Some countries experience higher values. At world level, a 10% unemployment rate would yield in 57 million unemployed – the entire population of some industrialized countries. The following statement is conclusive: „an important part of the economic and financial crisis cost will be incurred by millions of people not enjoying the recent economic growth”[2].

In Romania, the massive downsizing covering industry, constructions and other sectors following the imperishable goods market contraction and the decreasing number of industrial products orders from inside and outside the country, increases considerably the unemployment level which reaches 8% in April. Compared to some EU countries, the unemployment rate is estimated to be at a low level. These statistics do not include the long-term unemployed and the immigrants who lost their jobs or those who want to join their families. Presently, the Government is focused on downsizing. No employment programmes and strategies are elaborated which will deepen the employment crisis. An increasing unemployment level entails massive firing, even among highly-trained people excluding them from the post-crisis competition. Long-term unemployment generates insecurity, increased poverty and economic and social inequities as well as the human capital marginalization.

Restoring the relative balance on the labour market depends mainly on the economic strategies elaborated by each state, on the economic and political interests at community and world level and on the international institutions' contribution to the economic growth. Reality has proven that the states mainly centred on the economic recovery have allotted funds and encouraged private investments. This approach reminds us of J.M. Keynes's recommendation to the states to take steps in order to mitigate the consequences of the 1923-1933 crisis translating in an unemployment rate reaching 20, even 30% in most countries. In the light of this view, J.M. Keynes believes that „investments are the only means towards full employment”. (John Maynard Keynes, 1970, p. 380) According to Keynes, although lower interest and tax rates may stimulate private investments, on the crisis background, however, they wouldn't translate in important public investments meant to stimulate consumption and employment. What Keynes outlooks is the state's fortuit involvement by purchasing private shares, therefore becoming shareholder within banks in order to prevent them from undergoing bankruptcy and creditor of famous automobile industry companies, as it is the case of the USA and of other states. The national and world markets structure has changed; consequently, crises may be generated by the changes in the states' economies. Nowadays, the business environment includes a wide range of companies which, through their size and through the necessary means and

[2] *Rapport mondial sur le travail*, Geneve, 2008.

instruments to make them competitive at world level, gain an independence which exempts them from the central control in many respects. The administrative steps taken by some states have created the premises for the economic recovery, a positive yet modest progress in employment is recorded.

Table 1

The GDP evolution (%) in some EU Member and non-Member States, compared to the previous year

	2006	2007	2008	2009	2010*
EU (27 countries)	3,2	2,9	0,7	– 4,2	0,7
Austria	3,5	3,5	2,0	– 3,6	1,1
Germany	3,2	2,5	1,3	– 5,0	1,2
France	2,2	2,3	0,4	– 2,2	1,2
Italy	2,0	1,5	-1,3	-5,0	0,7
Poland	6,2	6,8	5,5	1,7	1,8
Spain	4,2	3,6	0,9	-3,6	-0,8
Romania	7,9	6,3	7,3	-7,1	0,5
The United Kingdom	2,9	2,6	0,5	-4,9	0,9
Hungary	4,0	1,0	0,6	-6,3	-0,5
The USA	2,7	2,1	0,4	– 2,4	2,2
Japan	2,0	2,4	– 1,2	– 5,2	1,1

*Estimated statistics

The data indicate a slow economic growth in 2008, compared to the previous year; in 2009, all the surveyed countries, except for Poland, record a significant fall in the GDP on the economic crisis background. According to the estimated statistics, 2010 will be marked by a modest economic growth involving a slow and long-term recovery of the labour market fostering long-term unemployment. Romania, compared to the other surveyed countries, records the highest decrease in the GDP: -7,1% in 2009 and -0,8 in 2010. After such a drastic fall, a short-term solution towards a sustainable growth is hard to find. This translates in the effects of the failure to implement an economic recovery strategy. This will delay the coming out of the crisis and will maintain high unemployment rates. Compared to other EU Member and non-Member States, the Romanian Government has failed to implement efficient employment strategies. The Government's core objective is to come out of the crisis with a low budget deficit which is counterproductive on the crisis background when public and private investments are required. Keyne's recommendation for Romania has been overlooked, which exposes our country to a deep crisis with immeasurable consequences in point of the economic and social development.

To be post-crisis competitive requires an economy which envisages the future directions of the informational society. Along history, the society has evolved by combining and efficiently using the workforce adjustable to the material and technical changes. The current society entails labour market transformations, in point of the human factor quality. Presently, the human resource faces new challenges generated by the production sector improvement, the economic changes and by a new management. Coping with such challenges resides in the human capital professional training. The country understanding the need for technical and scientific progress will be post-crisis competitive. This objective can be attained through investments – the engine of research and innovation development.

Table 2

Research and development expenses (%) from the GDP

	2000	2008
EU (27 countries)	1,82	1,90
Bulgaria	-	0,49
The Czech Republic	1,21	1,47
Italy	1,05	1,18
Hungary	-	1,0
Romania	0,37	0,58
Great Britain	-	1,88
The USA	-	2,76
Japan	-	3,44

Source: Eurostat 2009.

In 2008, Romania allots only 0,58% from the GDP for research and development, compared to 1,90% – the average value at the EU level. All the surveyed countries, except for Bulgaria, allot considerable funds for this sector. The more and more restrictive investment strategy following the budget deficit and a decreasing economic activity impacting the profits entails limited costs for research and development. Presently, the Economic Commission strongly recommends the EU Member States to increase the investments in research and development. The Lisbon Strategy, as amended, sets increased investments in knowledge and innovation as a major objective. In order to attain this objective and to shape a green economy, the labour market needs improvement, flexibility and adjustment to the changes in industry, information and energy. Therefore, the quality of the human factor depends on the acquisition of knowledge and on permanent improvement according to the society dynamics. Only through a proper training related to the new challenges, the workforce becomes human capital and ensures competitiveness at the economic unit and country level. The attainment of this objective requires long-term investments in education and continuing training. For some states, including Romania, investing in human capital is a way too high cost and on the crisis background, such an investment becomes unsustainable. This explains the increasing gap on the human factor quality, at regional and world level.

Table 3

Public funds for education in 2006 (%) from the GDP

EU (27)	Bulgaria	The Czech Republic	Denmark	Germany	Spain	Poland	Romania
5,0	4,23	4,60	7,98	4,20	4,20	5,25	3,6

Sweden	Great Britain	France	Italy	Portugal	Hungary
6,8	5,48	5,5	4,70	5,25	5,9

Source: The 2007 Statistical Yearbook.

Compared to the other surveyed countries, Romania has the poorest funding programme for education. This explains the delayed improvement of the technical and material resources, infrastructure and of the education programmes which impacts the future generation professional training and long-term employment. We add the modest remuneration, non-stimulating for the human capital. For a complete analysis, funding must be assessed both quantitatively and qualitatively.

During the crisis, the labour market may be efficiently managed through the balance-centred programmes and strategies elaborated by the central and local institutions and by the business environment. Increased employment and, implicitly, reduced unemployment implies at least two conditions: a) the human capital getting involved in the recon version process in accordance with the society's future coordinates; b) employment, depending on the strategies to stimulate the business entities in this direction.

Investing in the human capital is a determining factor but, as any investment, it involves a risk as well in the sense that the outcomes do not meet the individual and the society's expectations. A high employment level and turning to good account the human capital in accordance with their training, depend on whether we experience an economic recession or an economic boom. Nowadays, the economic crisis has shaken the relative balance of the labour market and fighting the recession won't lead to a considerable short-term decrease in the unemployment level. An increased employment rate will only depend, to a certain extent, to the increase in the GDP. The type of economic growth will be the result of the economic changes following the introduction of new sophisticated techniques and technologies. Therefore, part of the people will become long-term unemployed. The long-term quantitative and qualitative labour market imbalances involve social costs and insecurity at the individual and the society level. Mitigating these imbalances depends on the active strategies meant to contribute to the medium-term increase of the human capital adjustment capacity and professional reconversion. The countries understanding the role of the human capital investments and of the implementation of the latest techniques and technologies which meet the challenges on energy saving, a reduced pollution level and, least but not last, on increased product competitiveness on the national and world market will become post-crisis competitive.

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