

SOME CONSIDERATIONS ON HUMAN CAPITAL SUSTAINABLE DEVELOPMENT IN ROMANIA

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Abstract: *Human capital and sustainable development are related concepts. This paper aims to present a research on human capital sustainability in Romania. The human factor and its influence on development in general and more particularly on sustainable development can be analysed from many points of view. We are referring to the aspects of employment, education and social inclusion. The component of population is being analysed, in the context of new approaches concerning the human capital. Some current challenges for human capital sustainability are presented, related to demographic impact on the labour market. Using data from official statistics, we will expose an overview based on the social component of the sustainable development.*

Keywords: Human capital; Sustainable development; Labour market; Employment; Education

JEL classification: J21, J24, Q01

1. Introduction

Especially in the last decades, the interest for human capital and sustainable development has increased at European level. Several studies are reviewing successfully the human capital. Special focus is given on the digital inclusion and skills of the human capital. These will shape the sustainability of the human capital in the near future. The European Commission has even created the indicator named “digital skills indicator”, which takes into consideration the information skills, communication skills, problem solving skills and content creation skills. (European Commission, 2015a) Another approach of the European Union is based on the human capital dimension of the Digital Economy and Society Index. (European Commission, 2015b). The same report shows that unfortunately, Romania has the weakest performance at this indicator.

The paper aims to emphasize the definition of the human capital nowadays and the current challenges of the human capital. The sustainability of the human capital is underlined with the support of relevant statistical indicators.

The research provides an approach of valuing the human capital potential, as a solution for keeping the human capital sustainability in the future.

2. Sustainability of the human capital

2.1. Human capital nowadays

The concept of human capital was extended today at the societal level and even globally, and it is recognized as a factor of economic growth (Krueger and Lindahl, 2000). The focus is on the role of education, labour market dynamics and income inequality. A reference work in this regard is "Capital in the Twenty-First Century" of the economist Thomas Piketty (2014). The author argues that the efficient use of capital in developed countries is consistently higher than the rate of economic growth, and this will generate an increase in wealth inequality in the future.

Two types of human capital could be distinguished. The first type refers to its use as labour in connection with the production of economic value added, where labour is the generating element along with other factors of production such as financial capital, tangible assets and working time. The other type of human capital is viewed as objective investment in education and training. Scheffrin (2003) considers human capital as "the stock of skills and knowledge embodied in the ability to perform the work so as to produce economic value." Therefore, human capital includes both perspectives.

Currently, the most complex and used definition of the human capital was developed by the Organisation for Economic Co-operation and Development (OECD, 2001:18): human capital is "knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being". In other words, human capital incorporates productive labour, skills and knowledge.

2.2. Current challenges of the human capital

Currently, human capital is the most important resource of the economy, with special importance due to its complexity, size and dynamics from the perspective of its frequent changes, but also from the perspective of interdependence of demographic phenomena and the social and economic processes. In the context of Europe 2020 Strategy and the Romanian Operational Programme "Human Capital", the focus is on social inclusion and efficiency of individual, group and society. Unlocking the potential of labour, creating conditions for increasing labour market participation and assuring access to quality jobs are priority objectives of economic competitiveness, sustainability and inclusion. At the same time, the costs and benefits of efficient allocation of human capital in terms of impact and positive and negative effects are important as well.

Current challenges and concerns are related also to the work development in the future. Due to technological innovations and the emergence of new business models and industries, it will tend towards a development matrix of industrial relations, diversity, virtual organizations, responsibility and ethics. The work will be guided by new technologies and social networking data, and traditional activities and professions will disappear (PwC, 2014).

Population characteristic is also a component that leads to changes of the human capital. Hence, aspects such as the socio-professional status, education and mobility of the population must be considered in the context of sustainable development. This emphasizes two issues concerning human capital. First, in underdeveloped countries, the population is growing and the level of education is

poor. These individuals must be supported with resources, while they do not produce enough for the economy. On the other hand, population distribution in urban and rural areas is important, as classical economic growth was supported by the exodus of population from urban to rural.

Migration was included in the new Agenda 2030 of United Nations - Sustainable Development Goals (SDG), in 4 of the 17 goals of sustainable development, thus correcting their absence from the set of Millennium Development Goals, adopted in 2000. The Agenda 2030 is stating the following: "We recognize the positive contribution of migrants inclusive growth and sustainable development. We also recognize that international migration is a multidimensional reality with relevance to developing countries of origin, transit and destination. We cooperate globally to ensure safe migration, in full compliance with human rights and humane treatment of migrants, regardless of their status. This cooperation is intended to improve the resilience of local communities to refugees, particularly in developing countries. We emphasize the right of migrants to return to their country of origin and specify that States must ensure that returned migrants are reintegrated." (United Nations, 2015) Therefore, the United Nations assumes these goals to ensure a better monitoring of migration and considers the phenomenon of migration of refugees.

At European level, a European approach places the migration as a determinant of sustainable development (European Commission, 2013). The total number of migrants in the world have risen from 150 million in 2000 to over 200 million in 2010 (International Organization for Migration, 2010). Over half of them live in low- and middle-income countries and many developing countries are both countries of origin and countries of destination for migrants. This regional mobility generates opportunities, contributing for example to reducing poverty, but simultaneously makes effective governance necessary to resolve issues like brain drain and exploitation of migrants.

In Romania, the new approach of human capital is based on Human Capital Operational Programme, conducted in the period 2014-2020. It envisages valuing human capital, a resource for sustainable development in the future. The program will contribute to the objectives assumed by Romania in the context of the Europe 2020 Strategy, which are related to human capital:

- Increase to 40% the proportion of people under 30 who graduated from tertiary education. To achieve this goal, reforms are needed in education and economy designed to support education expenditures.
- Decrease to 11.3% the early school leavers. There was a decrease in the dropout rate from 22.9% in 2000 to 18.3% in 2008, but it rose in 2010 to 19.3%, as a result of the economic crisis. In 2014 the rate of early school leavers was 18.1% (Figure 1).

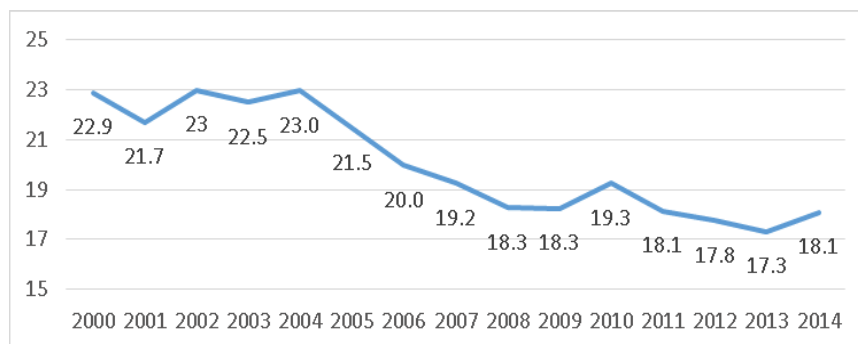


Figure 1: Early school leavers in Romania, 2000-2014

Source: National Institute of Statistics, Romania

- Increase social inclusion - this objective seeks to reduce the population at risk of poverty or social exclusion to 580 thousand persons. In Romania, the highest at-risk-of-poverty rates are registered among young people aged 0-17, which constraints their evolution on the education and labour market.



Figure 2: At-risk-of-poverty rate by age groups, 2000-2014

Source: At-risk-of-poverty rate by poverty threshold, age and sex (source: SILC) [ilc_li02]

- Increase the employment rate for people aged 20-64 years to 70%, which claims for reforms in terms of stimulating employment and ongoing training of the workforce. The employment rate for people aged 20-64 had the highest value in 2008, just before the crisis. The lowest value of the period was in 2011.

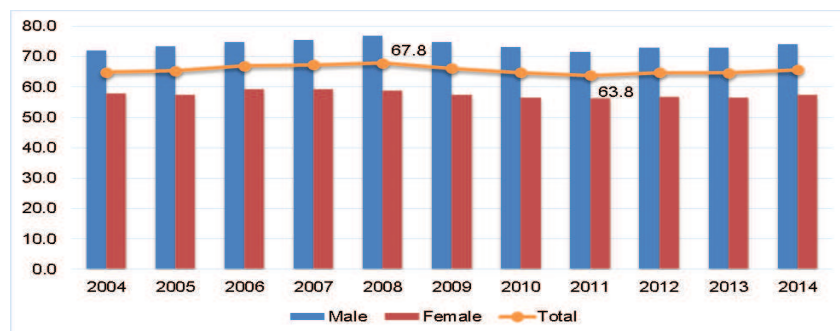


Figure 3: Employment rate for people aged 20-64 in Romania, 2000-2014
Source: National Institute of Statistics, Romania

3. Labour market and the demographic impact

Analysis of the impact of demographic trends in terms of employment shows a significant amount of restriction items, among which deserve attention, in particular, the declining birth rates and the deterioration of the age structure of the population, high levels of infant and maternal mortality, changing demographic behaviour of young couples opting for fewer children, massive drop in the birth rate for mothers with a higher level of education and medium living conditions, migration, especially external and internal but in less developed areas, from rural to urban areas. The latter produces imbalances in territorial depopulation and even when it is not matched by natality.

Ageing is a demographic process specific to Romania's population. The accelerated phenomenon of population ageing owes to negative natural increase rate – in the two decades the number of deaths exceeding increasingly the number of live births - and, in parallel, due to the increase of life expectancy. Birth rate declining has reduced the young population (0-14 years). Also, the extension of life expectancy has resulted in increasing the number and proportion of elderly population (65 years and over).

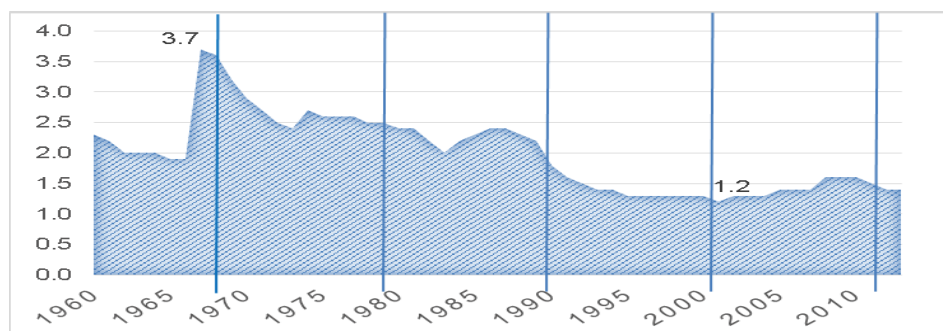


Figure 4: Total fertility rate in Romania, 1960-2013
Source: National Institute of Statistics, Romania

In Romania, total fertility rate, defined as the number of children born by a woman during her fertile life, has been decreased dramatically every decade. In 1967, the fertility rate was the highest in all the period (3.7 children) and in 2001 was

registered the lowest rate, of just 1.2 children.

In the last two decades, Romania's population was reduced by about 1.7 million, which represents a waste of human capital of over 7% plus temporary migration for work - estimated at about 2 million people.

The official data (National Institute of Statistics) show for Romania that in 2050, young people will be significantly reduced: 4.9% for the age group 0-14 years and 2.5% for 15-24 years. Considerable risks may arise from such evolution. In the demographic trends, they are linked to ensuring human capital for labour market, as the school population is reduced drastically as a result of long-term effects of the phenomena mentioned above. Even if, through appropriate policies there will be a recovery in the birth rate, population decrease in the last two decades will influence aging and will decrease the potential for work to the horizon of 2050. It is anticipated a minimization of the labour market, if this deficit will not be compensated by immigration. The current context of immigration has a negative mark at European level, which will be observed in Romania in the near future. In addition, the current demographic crisis could maintain the behaviour of young people to postpone the founding family, respectively will reduce fertility rates. On the other hand, Romania will risk to confront the phenomena of migration to areas that have failed earlier to counter the effects of the crisis through the creation of new jobs.

Reducing demographic impact on the employment potential can be countered by measures and policies to stimulate population growth by: pro-natality policies or social programs targeted to family and child; effective public health policies for children; maintaining a positive external migration rate by returning people who have migrated.

4. Valuing human capital potential

The solution for keeping the human capital sustainable is definitely the valuing of its potential.

In a society two categories of human capital can be found: the potential human capital and the real human capital. They are delimited by two large sections of the population: resident population and migrants.

The resident population considers the external migration balance (according to usual residence criterion), while the permanent population covers the whole Romanian population, according to permanent residence in Romania criterion, irrespective of the usual residence (National Institute of Statistics, 2015).

Another classification of the population, made by labour market participation criterion, is important to note. The economically active population comprises all persons aged 15 years and over, providing available labour force for the production of goods and services; it includes employed population and unemployed.

Human capital includes all potential working age population (15-64 years), which are both economically active and inactive population. Economically active population takes value by transforming into real human capital through employment. Employment could be analysed on two levels:

- Quantitative, in terms of number of employees, employed persons;
- Qualitative, in terms of social productivity, value added.

Therefore, the gap between potential and real human capital is given by unused potential human capital (by employment) and includes the following categories:

unemployed, NEETS, pupils and students, housewives and pensioners. The real human capital is the one which takes part actively in the labour market and includes the employed persons: employees, employers, self-employed, unpaid family workers, farmers, remunerated apprentices and trainees, members of armed forces (Figure 5).



Figure 5: Categories of human capital
Source: authors' view

5. Conclusions

The concept of human capital has been changed over time, and nowadays we face its global view regarding its role on economic growth. The population component plays an important role as it has impact on the labour market.

Indicators such as rate of early school leavers, at-risk-of-poverty rate for young people, employment rate and total fertility rate show that the human capital is not sufficiently sustainable in Romania.

The frequent discrepancies between the education market and the labour market are materialized in the loss of human capital, loss of investment in education, loss of added value as a result of improper work or relinquishment to work after graduation. Young workforce that leave Romania is a loss that deepens the gap between potential and real GDP and the gap between states.

The sustainability of human capital could be achieved by applying the methodologies for monitoring the insertion of graduates of different forms of education (vocational, secondary and higher).

Last but not at least, as a way to ensure the sustainability of human capital, it can be conducted an analysis of the skills that employers in Romania consider important to their company's success and adapting the education and training offer to those requirements and periodic updating the occupational standards and training and educational curriculum, closely related to dynamic changes on the labour market.

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