

EFFECTS OF EDUCATION ON UNEMPLOYMENT AND POVERTY IN ROMANIA

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Abstract: *Although it has always been a decisive factor of economic development, education is becoming increasingly important in today's societies characterized by a more dynamic rhythm of change. Individuals must face the new challenges of the labour market imposed by the new knowledge economy. Considering this conditions, equip individuals with the needed knowledge and skills is an important factor of the progress of the societies as a whole. This paper aims to analyze the positive implications of education on employment and unemployment in Romania. Education provides greater stability on the labour market, it guarantee decent income and increased opportunity to refocus quickly to other jobs requiring different knowledge which reduce the risk of poverty and longterm unemployment. The analysis aims to identify the differences in terms of education by residence area, age or gender and their implications on labour market.*

Keywords: *education, unemployment, poverty, social exclusion, knowledge economy*

JEL Classification: J24, I24, J21

1. Introduction

For individuals from the modern society, education is more important than ever. The globalization of production and trade, new technologies and their impact on individuals, the knowledge economy that characterizes the fifth major Kondratieff cycle represent challenges for the workforce of the world in which we live. Ensuring continuity of employment becomes much more difficult compared to few decades ago. This is explained by the rapid changes that require frequent reconfigurations in terms of labour demand profile. Labour supply must be able to respond as quickly as possible to these changes. A delay or fail to adapt represents the enter into a vicious circle of lack of education needed by current labour market.

Increasing the level of education ensures better adaptation to the labour market and reduce the risk of poverty and social exclusion. In addition, revenue growth granted by the increased level of education ensure the accumulation of new knowledge throughout life.

2. Literature review

Increasing the level of education is a fundamental requirement of innovation needed to increase competitiveness, GDP and social cohesion (Comm 2016b). To produce such effects, the educational system must be supported by public policies that aim at reducing disparities between the categories of individuals who meet on the labour market, between the business cycles phases.

Increased emphasis on education as a result of its direct correlation with increased incomes explains, together with other factors (changes in labour legislation or diversification of atypical employment) the trend of reducing the number of hours worked starting from 2012-2013 as a signal of resuming the pre-crisis reduction of working hours (Comm, 2015).

Studies show that there are gender differences in terms of implications of educational attainment on employment. Women have lower employment rates than men. The gap can be reduced with increasing level of education. In addition, the income earned by women is lower compared to men having the same level of education (OECD, 2015).

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As a result of the economic crisis, more young people have been oriented to continue their education, in response to reduced successful prospects on the labour market. This explains the reduction in labour force participation rates of young people. This evolution of school expectancy is interpreted as a natural correction of the downward trend during boom periods, when people with low level of education enter the labour market attracted by the favorable and growing opportunities (Comm, 2015). Such cyclic pattern of orientation of people with low level of education to continue school/education, adversely affect them in times of recession, when the need to be more adaptable increases as a result of reduced activity of companies and reorientation of employees towards other activities that are growing.

Education must be analyzed as a tool for automatic stabilization of the labour market, as an anti-cyclical tool. Education should be used as a safety net for those who become unemployed or beneficiaries of social protection aids. Governments should support education for those who in other periods would have found some labour market opportunities for new jobs. Recession questioned the correlation between what individuals want and what the labour market offers, greatly affecting young population, due to the reduction of opportunities and job creation (which suffer most in recessions). Longer periods of waiting or searching may damage the abilities and reduce the desire to work. Although these effects are harmful to individuals of any age, for young people is even more destructive, because they are willing to experiment more than the older population, they have short periods of job search due to the tendency and desire to experiment to find a job according to their expectations and knowledge. Although in terms of economic growth the process is beneficial for both individuals and society as a whole, in times of recession, it becomes dangerous (Pissarides, 2011).

Therefore, the solution is provided by the Nordic States, where learning is understood as lifelong learning, constantly the individuals having the opportunity to refocus in terms of employment. As a result, employment rates are the highest in the European Union and the rates of poverty and social exclusion are among the lowest. Level of education and poverty are related because poverty is a multifunctional concept that refers not only to the lack of income but also to equal access to various public services such as education, training and retraining (Duiella and Turrini, 2014). People affected by poverty and social exclusion risk to be caught in a vicious circle of poverty, social exclusion and low education.

Studies show that disparities between labour markets can be absorbed by migration for employment purpose in a short time, approximately 1 year (Jauer et. al, 2014). However, migrants who raise concerns in terms of the possibility of labour market integration are those from the third countries. Currently, the European Union is facing massive immigration from third countries, affecting educational systems. Third country nationals have reduced prospects for integration on the labour market, often low level of education, do not speak the host country language which entails greater risks in terms of employment and social inclusion compared with native residents (Comm 2016b, Comm 2016c). Participation rates in education for immigrants are much lower than for the native population, knowledge and education are key engines of integration into new countries (OECD / European Union 2015). More than three quarters of migrants are aged up to 40 years and most of them have low educational level which causes obstacles to their integration (Arpaia et.al, 2014).

3. Education and its implications on labour market in European Union and Romania

An important indicator of evaluating the education as a progress factor of the society is the level of education of the population on various split-components: age, gender, residence

etc. Figure 1 shows the level of education of working age population (15-64 years) but also some subgroups by age. The population is divided into 3 groups according to level of education, each group having associated two or more levels of education corresponding to International Standard Classification of Education 2011 (ISCED 2011). In 2015, the population Less than primary, primary and lower secondary education (ISCED level 0-2, 2011) represented 26.9% of total population in the European Union and 29.4% in Romania. The largest share of the population was represented by the group Upper secondary and post-secondary non-tertiary education (levels 5-8, ISCED 2011) 46.4% of total population in the EU and 55.6% in Romania. Population with high level of education, Tertiary education (levels 5-8, ISCED 2011) owns at the EU average the same share as the first group, 26.7% in 2015. In Romania the share of population with high level of education (often understood as university diploma or more) ranks at a much lower level, 15.0%.

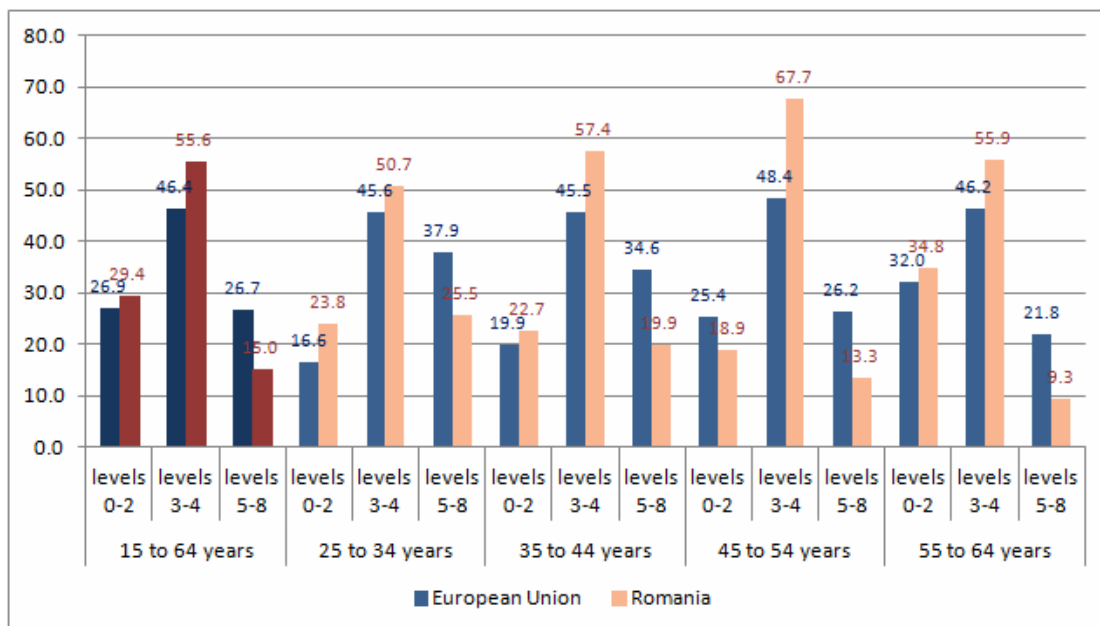


Figure 1: Population by educational attainment by age group, European Union and Romania, 2015

Source: Eurostat Statistics

Analysis by age groups shows significant differences between the population with high level of education and the other two groups. The population aged 25-34 years had the highest level of education both in the EU and in Romania. This is the part of the population which was formed during accelerated changes on the labour market and globalization, when appeared the new knowledge economy. Thus, understanding the new realities and the ability to cope with them by a higher level of education have led the trend to continue studies for a larger part of the population. As a consequence in this age group the share of population with tertiary education is higher: 37.9% of the total population in the EU and 25.5% in Romania. As age increase, the share of the population with higher education decreases, reaching for the group that is closer to the exit from the labour market (55-64 years) at 21.8% in the EU and 9.3% in Romania. This very reduced level of the population with tertiary education in Romania pose serious problems in terms of adapting of workers who lose their jobs to the new conditions. Often the low level of education and the lack of desire of training or retraining which it assumed (because this is the manner to reached this age without increasing the level of education) determine the persons who lose their job at an age close to the statutory retirement age to remain dependent on social protection systems, by unemployment benefits and subsequent they use different ways to retire:

medical retirements of early retirements. White Paper on reforming pension systems (Comm, 2012) suggest as a solution to demographic aging and increasing life expectancy, raising the retirement age, solution already put into practice in most of EU states. It also aims to limit access to early retirement by tightening the conditions and increasing penalties.

Implications of the level of education are reflected in the labour market participation rates, activity, employment and unemployment of the population of different levels of education. Inactivity and unemployment have negative implications on the economy as a whole, due to the fact that unused labour at a specific time cannot be used later, due to the risk of losing skills that people have and due to the risk of becoming dependent on social protection systems and to perpetuate this situation. Romania's unemployment rates are significantly lower than the EU average, the explanations being related firstly to the workforce employed in the subsistence agriculture (not employees) with low incomes and limited opportunities to develop, and secondly to labour migration to other states of EU (this phenomenon reduce the basis for calculating the indicator and therefore the overall result).

Viewed in greater depth, by educational level, unemployment rates show a reduction of the indicator as the level of education increase, something that underlines once again the importance of education for successful transitions on the labour market. The more educated a person is, he will be able to adapt to changes required by the knowledge economy, globalization, cyclicity of certain activities determined by the phases of the business cycle etc. The largest difference between Romania and the EU stands for population with low education, for which the unemployment rate is about one third higher than the total unemployment rate. For the EU, the unemployment rate for the population with low education rate is almost double compared to the total rate.

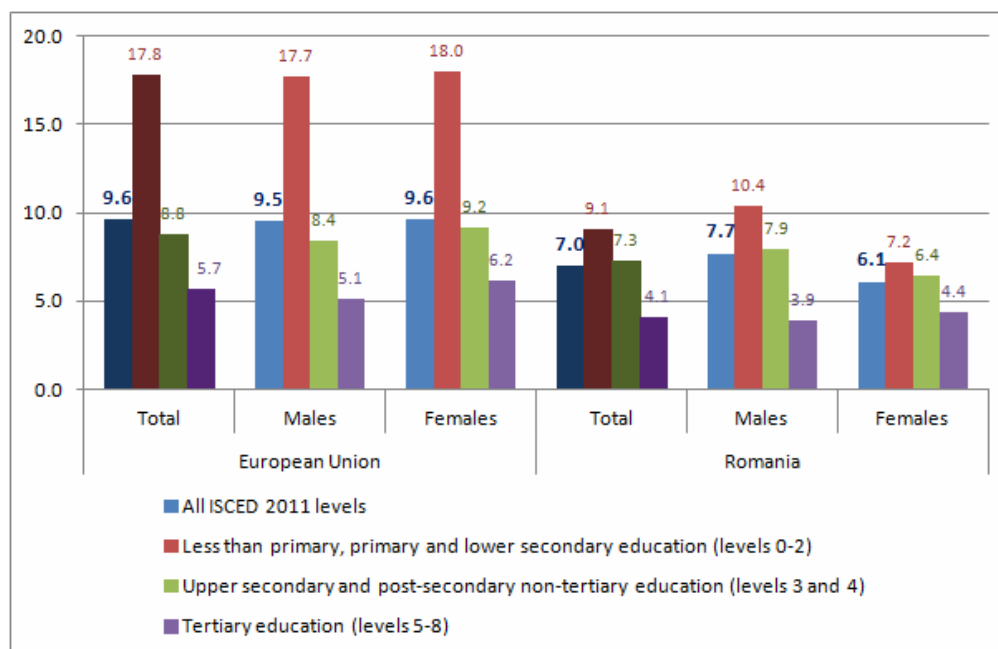


Figure 2: Unemployment by education attained and gender

Source: Eurostat Statistics

In terms of gender differences, unemployment rates are lower for women than for men in Romania, unlike the EU where the situation is reversed (Fig. 2). Unemployment rates for women, although lower than total and than for population with low and medium education are higher for women with high education compared to men with the same level

of education, a situation similar to that registered in the EU as average. This can be explained by the availability of highly educated women to seek jobs suited to their training or by voluntary acceptance of different discontinuities to cope with temporary family situations.

Young population is most susceptible to cope with rapid changes of the world economy and of the labour markets as a consequence. The possibility of becoming adaptable on the labour market traces its roots back in childhood, when parents' care for education has left its mark on the path that future young will follow in terms of education and on his caring for continuing education that becomes a necessity in modern society.

In less developed countries in European Union, access to education is dependent on many other economic and social factors, education being a greater extend the responsibility of the families. Under these circumstances, the level of education of parents significantly influence children's education (Aceleanu, 2012). Viewed from this perspective, as the education level of the parents is lower, the poverty risk or social exclusion of their children is higher (Fig. 3). In Romania this risk is highest compared to the European Union, 46.8% of the total population under 18 years being at risk of poverty of social exclusion. Romania is followed by Bulgaria with 43.7% and Greece with 37.8%, the EU average being 26.9%. Countries which performs best on this indicator are the Nordic States: Sweden 14%, Finland 14.9% and 15.7% Denmark.

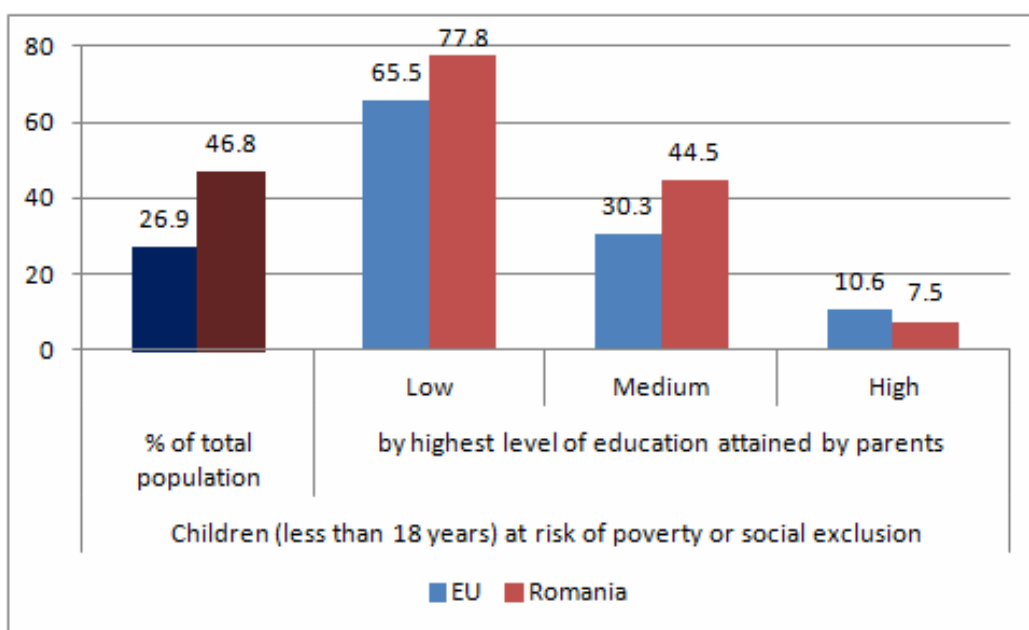


Figure 3: Children at risk of poverty, % of total population

Source: Eurostat Statistics

The risk of poverty or social exclusion increases as decreases the level of education of parents. Thus, in 2015 in Romania, 77.8% of the population aged 0-17 years with parents with low education is at risk of poverty or social exclusion. Children from families with parents having tertiary education have a much lower risk of poverty or social exclusion. For this category, according to Eurostat, the risk is much lower than the European average, 7.5% comparing to 10.6% of the EU average, Romania ranking among the countries with the lowest risk of poverty for children with parents having tertiary education, having values comparable to Sweden (7%), Denmark (7.2%) and Finland (7.5%). This underlines the increased importance that education has in Romania and the positive effects that it generates. Unfortunately, as shown in Figure 1 the share of population with tertiary education in Romania is much lower than EU average. Increasing

the level of education of the population, will create a virtuous circle with effect on employment, income, possibility of supporting lifelong learning and education of children.

Current trends on the labour market shows that education is a factor of stability and progress, the more educated the workforce is, the more adaptable and open to new perspectives imposed by the new knowledge society becomes.

4. Conclusions

Current trends in terms of education indicate a growing interest of various categories of population for training due to the favorable effects that it generates on income levels, on working time and on the possibility to make rapid changes on the labour market.

Economic crisis shows that flexibility of workers is very important in times of recession because it provides individuals the tools to faster overpass the periods of discontinuity, thus avoiding the risk of poverty and social exclusion. The most adaptable are used to learn, generally those with higher level of education. They have, as a result of the shorter periods of searching on labour market and higher income, the lowest risk of poverty or social exclusion.

Economic policies must support the investments in public education because they reduced the counter-cyclicity of the educational process that it is estimated that it has yet. Education must become the catalyst of the process of adapting labour supply to lower and changing demand from recessions. In these periods, educational processes known significant changes both in structure but also the level of education as a result of advances in knowledge, innovation and research.

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