Editor

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Neoliberalism in Action - The Impact on Labour Market

by Daniela Zirra and Andreea-Clara Munteanu

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Preface

The first decade of the 21st century ended with a wide crisis that forced the majority of the world governments to redefine their approaches and, at the same time, consecrated a series of mutations with respect to the balance of powers at the world level, which can be exemplified through different facts, such as: the acknowledgement of China's statute as the second economic power in the world, the massive involvement of the International Monetary Fund in saving certain European Union member states or the granting, for the first time in history, by the Standard & Poor's rating agency of a negative score for the economic perspectives of the United States of America.

The turmoil of governments and international institutions was accompanied by a real intellectual frenzy destined to formulate a new mix of economic policies and philosophies which to ensure not only the exiting of the crisis, but also the perspectives of sustainable and competitive development in an increasingly inter-conditioned and polarized world, not only from the economic point of view, but also from the demographic one. In this context, one of the most disputed dilemmas was the one regarding the market's role in the assignment of resources. For many analysts, if not for all, the solution for all problems seems to be a modern reinterpretation of the laissez-faire principle and the accents are very diverse, from moderate, to extremely libertarian.

The work at hand aims to find a balance point in this range of doctrinaire approaches, the declared purpose being to determine the impact that neo-liberalism may have on the labour market, in the implied context of the economy of the contemporary states.

Through its content, the work stands out as a critical analysis of neo-liberalism, seen exhaustively in its chronological evolution, with the mentioning of the main schools of thought and of the manner in which they influenced the economic policies in certain periods, of important economies of the world. On this background, the lecture of the book presents the specific manner, often different than the Western one, in which care neo-liberalism was defined and in which it manifested in Romania, re-discovering with this occasion the names of great Romanian economists, too often forgotten by the present generations: Mihai Manoilescu, Stefan Zeletin, Victor Slavescu, Anghel Rugina.

On the basis of the doctrine clarifications mentioned, the relating of the neo-liberalism options to the labour market, the occupation of the work force and unemployment is fully justified by the book's authors, through the wide place and role of the labour market within the economy.

In a world in which there is too much (or only) talk about capital, raw materials resources and energy, the re-positioning of the human factor in the economic equation is opportune and necessary. At the same time, this action is worthy of appreciation also because, by means of its content, it reminds readers that the economic science is part of the social sciences, and not of the exact ones, as often leaves for understanding the excess of econometrics.

The final part of the work explores the influence of neo-liberalism on globalization and, moreover on the work force market at the world level, occasion with which the limits and imperfections of this approach are listed.

By means of its content, rich in information and through the correlations between complex and comprehensive phenomena, the work at hand represents an exciting lecture, which may generously open the path to fruitful
debates of ideas.

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Romanian-American University

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The Authors

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Abstract

Neoliberalism has a separate role in the range of economic theories, both through the especially large number of followers, and the extended manifestation period, of almost one century.

In the entire history of economic thought there is no other doctrine that enjoys such longevity or such a high number of renowned theoreticians who have brought, during time, valuable contributions to the development, consolidation and improvement of economic theory, in general.

What we must underline is that this process is still unfolding. Thus, the idea according to which only the continuous elaboration and assimilation of new knowledge and the uninterrupted innovative process can guarantee development and progress of individuals and society and proves its force once more. In this particular context, we wanted to underline in this work the strong impact had by the application into practice of the theories of neoliberal inspiration over the labour field.

Therefore, we consider that treating any economic subject from the neoliberalism perspective requires a prior well documented scientific analysis, as the evolution of the neoliberal economic paradigm is marked by a diversity of opinions and stages.

All the currents of economic thought, regardless of their orientation, have addressed the labour market and work force employment, both in terms of the complex issues of these areas and through the perspective of the functioning mechanisms, together with the diverse influential factors that condition their evolution.

In our opinion the importance of the labour market, in terms of creating sustainable and harmonious economic development conditions for a nation, especially during these difficult times, is overwhelming. Neglecting this aspect could have serious and long term consequences, regardless of the economic and social development level of a country.

It should also be noted that, both on national and international levels, we confront ourselves with a disrupted work market that can barely stand up to the provocations generated by the economical evolution rhythm regarding the quality of work resources and the correlation between the employment market and the present specific elements of the work demand.

Taking into account the haste, on European and international level, to rapidly modernize the mechanisms governing the labour market we can appreciate how important it is to seriously analyze the determining factors of the recent evolution in this area.

We also believe that an identification of the terms used in the neoliberal doctrine is necessary in order to provide an overview of the changes generated by the practical application of the neoliberal policies in the contemporary economy. The purpose of this study is to highlight both the positive aspects of the economic neoliberalism and its negative influences over the labour market development.

Key-Words: - Neoliberalism, Labour market, Employment, Unemployment, Global economy, Knowledge based economy, Globalization process

1. A short history of economic Neoliberalism

Introduction

In the economic theory numerous acceptations regarding the neoliberalism economy can be found. Some points of view focus on the theoretical fundaments of the emergence of this doctrine, and others target the economical context that generated the necessity of the neoliberal paradigm appearance. There are also definitions that focalize on the impact triggered by the application of the neoliberal oriented theories in the real economy. It can be certainly stated that the neoliberalism is one of the richest schools of economic thinking not only through its large number of followers but also through its longevity and opinion strength.

According to the Ludwig von Mises Institute to date there are at least six generations of neoliberal theorists, which imposed in this area, starting with Carl Menger (1840–1921) considered to be the founder of the Austrian tradition, and the count doesn't stop here.

1.1 The concept

In the following paragraphs we would like to present some of the economic neoliberalism definitions that can be found in the economic literature. As you know these definitions are numerous and varied, thus the following pages will not mention all of them. At the same time please note that many of the approaches are extremely critical, which shows that over more than half a century the neoliberal paradigm has remained as controversial as at its beginnings in the eyes of those who bowed to investigate this economic trend of thought.

A first opinion (Martinez & Garcia, 2000) is that neoliberalism is a set of economic policies that have become widespread during the last 25 years as a new form of liberalism characterized by some main features, like: lack of any bonds imposed by the government (the state) regarding the way private enterprises function, no matter how big the negative impact of this kind of action might have over the individual and the society; cutting public expenditure for social services, like education and health care, that are a vital aspect of a harmonious development of any nation; massive reduction of any public regulation that could affect the level of company profitability, without taking into account the negative impact of such an evolution over the labour market or the urgent need of environment protection, considered to be the central pillars of a sustainable development; massive privatization of all the activity sectors including strategic elements like drinking water supply, energy, transportation infrastructure, education and health care infrastructure and so on; shifting the government or public administration duties towards the individuals, making them responsible to ensure a decent life standard, including social security also, living conditions, health care, education and so on.

According to the authors the five characteristics mentioned above represent only a deceptive stratagem through which the neoliberal economic politicians hide, behind this unregulated market as means of economic growth, the minimization to the extreme of the government (state) responsibility towards ensuring the citizen the right to a decent life standard.

A harsher point of view in defining the neoliberalism (Austin, 2011) considers that it can be viewed from two perspectives: on one hand as a strategy, and on the other as an ideology. The neoliberalism is compared to a villain with plenty of followers the monetarism, supply economics, a new orientation of the classical economy and so on. The author strongly criticises the liberal paradigm, stating that it is only an

idolatrization of the free function market's ambitions, without taking into account the social and economic injustices provoked.

Another opinion on the significance of the neoliberalism (Anup, 2010) underlines that the final objective of the paradigm is represented finally by the natural functioning mechanism of the free market, in order to facilitate the unimpeded pursuit of economic relations between countries. It is stated that for this purpose there should be no barriers or restrictions that prevent this evolution, making a direct reference to tax system, taxes, regulations, standardizations, pricing and so on. In a nut shell the key word is freedom of decision and action in all the market segments (natural resources, capital, labour, money, etc.) and in all types of human activities (goods and services trade, investment, education, etc.).

According to these ideas the central element of the doctrine is the competition on all levels (individuals, companies, regions, countries and even continents) as a development and consolidation basis to global economy.

In some other studies, specialists in the field summarize the neoliberalism concept (Cohen & Centeno, 2006, p. 35) referring to the fact that, essentially, the key points of the doctrine consist in ensuring price stability and in shifting the economic interest sphere towards the growth of international trade and transnational investment rhythm. Throughout this evolution the following aspects are not taken into account enough: the need to create new jobs, or at least maintaining the existing ones; living standard, that have dramatically dropped in important global segments; widening of the developmental gaps between OECD member and non members; increasing of social inequity and not only.

It is also interesting to observe the idea, according to which neoliberalism transformed us all in fast-food consumers, minimizing the importance of complying with the contract clauses specific to the New Deal period (Peña, 2011). We can add that because of these contracts the employees enjoyed certain rights and were better protected, compared to today, against the abusive measures of organizations that are mainly oriented towards profit maximization, neglecting the social aspect. This type of orientation appreciates that the state's obligations, with respect to ensuring a decent living, the right to education, health care and so on, are almost completely transferred towards the individual that more often than not represents and overwhelming barrier to surpass.

According to other opinions (Palley, [2004] 2011), the neoliberalism is considered to be an economic philosophy of a conservative orientation that has dominated the last quarter of a century both the economic thinking and the public sector. The author identifies two negative elements that define this paradigm. The first one is a characteristic of the way income is distributed among the production factors, especially capital and labour. On one hand factors' retribution is done according to their *value*, and on the other hand the *game* between supply and demand has a decisive influence over the used factors' value, taking into account their productivity level and their insufficiency in relation to the economy needs.

The second element is establishing, at aggregate level, the way all the resource categories are allocated, considering that in this way waste is eliminated. If for example we make reference to labour resources, may be considered that such an allocation would tend towards full labour force employment. The problem is that the economic reality strongly contradicts this principle if we look at the completely unfavourable evolution of unemployment worldwide.

The large number of economists with a neoliberal orientation takes us to appreciate that this doctrine is very important in the present time. However there are many voices that challenge the paradigm, mainly because of the negative effects that arise through applying the neoliberal principles on a global scale. Harsh reactions against neoliberalism (Fullbrook, 2006) compare it to a beast that has transformed in a

unanimously assimilated knowledge in all areas of activity. The author considers that it is vital to fight and *overthrow* this paradigm that has become generally valid.

In contrast to the previously mentioned definitions, with some extremely critical, there are also authors (Fairbrother, 2006, p. 2) considering that most of the economists are neoliberal as long as they appreciate that the **Washington Consensus** promoted policies had a beneficial influence over the economy having as a result the highest growth rates ever.

The Romanian Economic School appreciates that neoliberalism represents **an economic trend of thought** based on adapting the classical liberalism theory to the economic (Dobrotă et al., 1999, p. 324), social, technical and material conditions in the second half of the 20th century, and which repositioned neoclassicism within the science of the economic field. The neoliberal doctrine flourished *despite the criticism brought forth by classical liberalism*, which on the one hand accorded importance to a *laissez-faire* set of principles along with the state's disinvolvement in respect to social and economical life, while on the other hand subjectively approaching economical analysis (Sută–Selejan, 1997, p. 168). Another shortcoming of the liberal doctrine, one which the neoliberal paradgim proposes to correct, is represented by highly shared psychological aspects and individual comportments, towards the detriment of real, actual and historical economic information.

Therefore we can appreciate that the economic neoliberalism developed and enriched the classical liberalism theories and principles, promoted by Adam Smith and David Ricardo. However, contesting voices exist affirming that the origins of neoliberalism should not be sought out in the twentieth century, but the second half of the nineteenth century. In addition, it could be considered that the paradgim's origin is not due to political and economical factors, but rather due to Newtonian physics (Fullbrok, 2006).

1.2 The genesis of economic-neoliberal paradgim

Economic-neoliberalism imposed itself as both a *result* and *reaction* to the failure of economical policies that were Keynesian, Authoritarian, or Marxist, which restricted and reduced the liberties of economic agents within the economical market. Importance was placed on macroeconomic theory, whose principal founder was John Maynard Keynes. This theory bases itself on the microeconomical deductions, taking all behavioural factors of every accumulated variable into consideration, with it the dangers of omitting essential elements pertaining to the macroeconomic system (Sava et al., 1999, p. 239).

The year 1938 is considered to be one of the most important moments of neoliberalism emergence and development (Nica, 1997, pp. 61–66) when the **Walter Lippmann Colloquium** meeting was held with international participation, immediately after Keynes's magnum opus the ***General Theory of Employment, Interest and Money*** was published in 1936. At this colloquium an **Agenda** was developed, which represents *the first neoliberal economic program* and *the birth certificate* of neoliberalism.

The most important aspects recorded in the **Agenda** were developed and presented by Lippmann as follows:

1. Only the price mechanisms operating the free markets can get organizing and utilizing the means of production under the best conditions and lead the maximum satisfaction of individuals desires (the way they wish and not the way it would be established by a central authority).
2. The balance positions that are established in the markets are affected and influenced by a series of factors, with a decisive effect, as: set of laws regulating property, banks, fiscal

system and so on. Thus the legal frame permitting free development and deployment of economic activities has to be elaborated by the state.
3. The main goal of the legal system is to ensure a social liberal control.
4. According to the liberal principles of organizing and deploying the production process a part of the national income should be allocated to national defence, scientific research, education and social security.
5. The collective effort of some activity sectors has to be characterized by transparency and knowingly consented by all the citizens.

The neoliberal postulates, promoted in 1938 remained in *numbness* until 1947, when on the 8th of April the ***Mont-Pellerin*** conference was organized by *Friederich Augustus von Hayek,* and which gathered 36 western specialists. The main participants, who later established the ***Mont-Pellerin Society*** in reaction to a strong interventionist wave of Keynesianism, were Jacques Rueff, Maurice Allais, and Charles Rist among others.

Hayek's arguments presented then, on the need to remove interventionism in the economy were as follows (Sicard, [1987] 1993, p. 80):

- The spontaneously established order in economy takes to the crystallization of the most efficient and effective decisions through which the economic activities are *conducted*, thus any applicable intervention form could not all the necessary information, taking to negative consequences;
- Provided that there is no external decision intervention the factors' balance influencing the economic phenomenon and processes' deployment is spontaneously established;
- Interventionism means disregarding the democratic principles, as any kind of intervention is always biased by providing benefits to some economic and social categories to the detriment of others.

The starting idea for neoliberalism is *a greater freedom for the economic agents,* situation reached through the imposition of a certain type of *limits,* this representing a paradox of the doctrine (Braunstein & Pepin, 2000, p. 102). Thus, competition represents the essential condition to *ensure a genuine economic freedom*, and bodies like cartel, monopole and others, which restrict the full manifestation of competitive relationships, need to have specific regulations imposed. *The state is the one that must intervene* to protect competition in order to ensure market relation liberalism.

The starting point of the current neoclassical theory is the system's main market actors (producers and consumers) with the links created between them, within and through the market (Nicolae-Văleanu, 1992, pp. 202-207). The main motivation behind the producer's decisions is *maximizing profit* and the consumer is the one who *conditions the actions and behaviour, not the other way around*. But in their actions, the economic agents must take into account the existence of some limitations and constraints.

The information system status of the market represents the central pillar of neoliberalism, and it has the role of transmitting the information from consumer to producer and back. Thus, the information is broken down to the individual he can choose his own variant of the optimal decision, among several possible alternatives, assuming the risks and potential disadvantages. In the view of neoliberal economics the evolution of each economy agent, regardless of its size, depends on the consumer's orientation and the volume of goods and services purchased by them. From the neoclassical point of view the free and unhindered market functioning is of vital importance, since only in this way maximum efficiency, general balance and an optimal economic and social state can be ensured.

1.3 Reference points in the establishment and development of economic neoliberalism

The current economic literature considers globalization to be the pinnacle of the neoliberal doctrine. Increasingly more voices (Piper &Taylor, 2000, pp. 37–38) appreciate that because of this evolution half of the world's population and two thirds of the countries lack full control over their own economy policies. It is the experts from DC Washington that *adjust* the macroeconomic policies, the investment project and social protection expenditure for these countries.

The principles that *guide* these instructions are known as the **Washington Consensus** (understanding or consensus in Washington). At the head of these regulations are two institutions, namely the International Monetary Fund (IMF) and World Bank (WB). In addition, the current global governance actors are the group of most industrialized countries in the world and Russia (G7 + Russia, now the G8), the Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO), NATO, various clubs (Club of Rome, Club of Paris) and other types of organizations that act more or less officially.

Unfortunately, many of the actions recommended and ultimately adopted by the governments visited by the two institutions are ill-founded and counterproductive in practice. The recommendations are designed based on *neoliberal*-style political analysis, or market-friendly type, which have become prevalent since the late '80s.

The globalization of economic policy is not entirely new. In **1920**, economic liberalism made a supreme effort to restore self-regulation of the economic system by eliminating interventionist policies which interfered with free markets. Disastrous after-effects of this offer, which occurred in the '30s and '40s, showed that full liberalization of the market system is impossible, both socially and politically speaking. Auto regulation of markets cannot resist, especially in key areas like labour, finance and international trade.

Since the late **1960**s, the neo-liberal doctrine has diversified, resulting to the appearance of new theories such as **the rational expectations theory** (initiated by R. Lucas, R. Barro, W. Wallace and Th. Sargent) and **the supply-side theory** (put forward by A. Laffer, N. Towers, M. Feldstein and J. Winniski). Since the '70s, during the rise of the capitalist economy system's crisis, a few liberal oriented streams were shaped, which tried to provide both an explanation of the production crisis and a methodology of exit.

Some of these streams are (Sava, 1981, pp. 205-206):

1. The **Monetarist doctrine** (Milton Friedman and The Chicago School) explains the economic crisis through almost exclusively monetary arguments. According to this orientation inflation is only a monetary phenomenon which generates unemployment, and could be solved by monetary control and generalized flexible exchange rates;

2. The **Ultraliberal Doctrine** (Friederich A. Hayek and the Mon Pellerin Association) finds that the Keynesian exaggerated and chaotic control type motivates the economic crisis, and a way to come out of it is through returning to the *natural market mechanisms*.

3. Libertarian Doctrine (David Friedman and the University of Florida) is the promoter of liberalizing the economy in all its segments, including the public services.

Despite the density of contemporary economic theories and doctrines, many scholars consider that economics is itself contained in a state of crisis because it no longer keeps pace with the real economy (Nicolae-Văleanu, 1981, pp. 13-17). In view of Keynesian and neoliberal doctrine, state-monopoly capitalism is a stage of capitalist development, being called in many ways, such as neocapitalism, the economy or the welfare state (Welfare State), industrial or postindustrial society, etc.

Between **1945** and **1970s**, there was an increase in the role, functions and powers of the state, under the influence of Keynesian doctrine, leading to the creation of the welfare state. The effect of this development was the general increase in living standards and some income smoothing as a result of compromise between Labour and capital (Brăileanu, 2001, pg. 64). The first part of the **1970s** was marked by the emergence of aggressive criticism against the welfare state. This situation occurs because of the rising inflation and worrying deficits together with the beginning of an era of economic and social development based on neoliberal theories with emphasis on the individual and the market. Among the main actors in the **crusade** against the welfare state, prosperity, were Anthony Giddens, Tony Blair's economic adviser and chairman of the London School of Economics, and Bodo Hombach, German Minister of Government Presidency, Gerhard Schroeder's close.

The collapse of the soviet system puts neoliberalism to the centre of the political stage. At present the basic political package promoted contains in a first phase achieving a macroeconomic stability, followed by a second phase of market adjustment for an efficient functioning. Unfortunately the **Washington package** caused huge economy deterioration in the areas where neoliberalism was the strongest, respectively Latin America, while positive development was noted in areas with a lesser impact of the doctrine, Eastern Asia (Piper & Taylor, 2000, pp. 65-66).

Currently it is appreciated that the problems of inequality, work force employment and poverty will become more dramatic in the new millennium if equitable growth is left to the self-regulating markets. All these events demolish the *myth of neoliberalism*, as institutions which ensure the doctrine implementation effectively serve the private economic interests of the world's most powerful states.

The economic publications appreciate that the economy damages are a result of the imposition of the neoliberal regime, created by the Bretton–Woods institutions, US government, public or private powerful undertakers, on the world economy (Ibidem, p. 67). Neoliberalism is considered to be a policy that *hurts people in any possible way in the name of economic prosperity*. Its rise to power was not an inevitable historical process, but an actively constructed path by those who have benefited from this arrangement. However there are difficult but feasible alternatives to the current economic development.

The falling into disuse and the acceleration of globalization transformed the welfare state into an instrument unable to perform its traditional functions. Giddens and Hombach promote liberalization measures (Brăileanu, 2001, pp. 67–71) based on principles previously stated by Ludwig Erhardt. They are:

- The enterprise is the backbone of competiveness and a source of wealth;
- Labour market flexibility through employee training, in order to obtain high profits and to assume the risks;
- Replacing the concept welfare-state with investor-state;
- Free information flow, in favour of multinational companies, with the help of IMF, WB, WTO and others;
- Individual, market, capital and companies become the new values of global order;
- Respect of the individuals' freedom of action and interaction, in the triple quality of entrepreneurs, producers and consumers, in order to maximize their utility;
- Resources (including Labour) allocation and social adjustment through the free market;
- The right to work is not guaranteed, is built on the individual utility of the participants;
- The state ensures social equity through access to initial and continuous education of the individual;
- Value assessment of people, goods, and services must be made in terms of their contribution.

Milton Friedman, Friederich Augustus von Hayek and Ludwig von Mises were the initial promoters of this orientation. The establishment of *large-scale privatization* generating an **absolute and unique entity** to govern the world represents the greatest danger of the current economy (Ibidem, pp. 91-98). Neoliberalism, in particular, is a doctrine transformed into a global political agenda, and has its basis in a Walrasian type economic balance, which in its turn is focused on the principles of free market forces and perfect, pure, free competition. The current neoliberalism is applied through a fiscal deregulation policy and an economic order thriving under the sign of freedom, wild individualism, everybody against everybody, and free trade, all in service of economic efficiency. The following actions take us to the materialization of economic neoliberalism:

1. Reduction of budget deficits, public spending, inflation, social protection spending.
2. Removal of administrative, fiscal and customs barriers.
3. Labour market flexibility.
4. Reduction the state's role in economy to a minimum level.
5. Focusing of economic rationality models on the individual profit maximization.
6. Increase of central banks' independence level.

Theoretically speaking, the higher the neo-liberal influence and applicability, the greater depletion of economic thought which boils down to creating technical *schemes* and instituting of a new economic order based on the virtues of freedom, market and individual.

Thus, the current globalization essentially represents liberalization with the individual as its most important vector. According to some specialists *"triumphant globalization causes an effacement of all the differences and values, encouraging a perfectly indifferent (none) culture. Once the universal disappears , only the all powerful global techno structure remains facing once again wild singularities delivered to themselves"* (Baudrillard, 1997, p. 32).

1.4 Schools and representatives of economic neoliberalism

Among the prominent theorists of economic neoliberalism, also known as the modern neoclassicism, we would like to mention a few:

- Carl Menger (1840-1921), Ludwig von Mises (1881-1973), Friederich Augustus von Hayek (1899-1992), Joseph Alois Schumpeter (1883-1950), Fritz Machlup (1902-1983), Ludwig M. Lachmann (1906-1990), and Karl Popper (1902-1994) – Austria;
- Walter Eucken (1891-1950), Ludwig Erhardt (1897-1977), Franz Böhm (1895-1977) and Karl Emil Maximilian Weber (1864-1920) – Germany;
- Wilhelm Röpke (1899-1966), and Firmin Oulès (1904-1992) – Switzerland;
- Jaques Rueff (1896-1978), and Maurice Allais (1911-2010) – France;
- Enrico Barone (1859-1924), Maffeo Pantaleoni (1857-1924), Vilfredo Federico Damaso Pareto (1848–1923), and Luigi Einaudi (1874–1961) – Italy;
- Lord Robbins (1901-1977), John Richard Hicks (1904–1989), Lionel Charles Robbins (1898-1984), Roy George Douglas Allen (1906 – 1983), Nicholas Kaldor (1908-1986) and Ursula Kathleen Webb Hicks (1896–1985) – United Kingdome;
- Milton Friedman (1912–2006), George Joseph Stigler (1911–1991), Frank Hyneman Knight (1885-1972), Wilson Allen Wallis (1912–1998), Jacob Viner (1892–1970), Henry Calvert Simons (1899–1946), Arthur Betz Laffer (1940), Roger Garrison (1944), and Hans Herman Hoppe (1949) – USA;
- Karl Gunnar Myrdal (1898–1987), Bertil Gotthard Ohlin (1898-1979), and Eli Filip Heckscher (1879-1952) – Sweden;
- Jan Tinbergen (1903–1994) – Holland, etc.

1.4.1 European neoliberalism

As neoliberalism evolved, different **schools and economic theories** have come into shape becoming stronger and stronger as the doctrine has gained new followers. The German neoliberalism, also known as **ORDO - liberalism** was promoted by the **Freiburg School** (founded by Walter Eucken). Some representatives are F. Böhm, L. Erhardt, W. Weber and W. Röpke. Some exegetes also include L. Miles, who rejected the Keynesian thesis of state intervention in the economy. Supporters of this point of view appreciate that full employment, a high living standard and real wage growth can be achieved only by promoting *free initiative and free competition*, as for the state intervention in economy it has to be limited, with precise goals, non intrusive in the private economic agents' relationships. The German neoliberalism evolution has three modules: the theory of economic order and pertinent specific knowledge, the theory of free social order in the market economy, and the theory of social partnership or market social economy.

Ludwig Erhardt makes a distinction between free market economy and capitalism, which affects the interest of the country's economic development, including work force use, with consequences over the individual's living standard. Erhardt, along with other followers of the ORDO School, promoted the theory of social market economy with its main objective being the functioning of a free market economy able to ensure the highest level of social, economical and political development even for those incapable to work (elderly, children, and for those incapacitated).

In 1948, the German currency reform was carried out with the exceptional contribution of Ludwig Erhardt. Therefore, Germany adopted **the social market economy**, which is the foundation of the **Freiburg School**, centred on two basic principles (Albert [1991] 1994, pp. 68-83):

1. *Dynamic economy* must be based on the *market,* which should *operate freely*, particularly on prices and wages.
2. *Market mechanisms* alone cannot determine the social life ensemble, so they must be *adjusted by a predetermined social imperative*, guaranteed by the state.

So the **welfare state (Sozial Staat)** must be the defender of social protection and free negotiation between social partners. Banks should have a leading role in corporate finance and the state must ensure equal conditions of competition, without replacing the market. In the *Renan model* applied in Germany, Sweden and the Netherlands, banks do everything, grant loans, receive deposits, intervene on the financial market, administer part of business' revenue, have their own industrial groups, maintain information networks made available to companies, are operators and advisors, business banks, and so on.

In financial terms the *Renan* model is *closed, stable and solid*, with a compulsory social dialogue imposed by the law if the number of employee is over 2,000, as the system is based on joint management and responsibility. *Professional training* is considered to be a *national priority* and is based on four core principles:

- Addresses a larger number of employees, apprenticeship is considered a very important aspect of a high standard training;
- Learning system is egalitarian;
- Workforce training is funded largely by companies and by federal grants;
- Employees are not a simple a production factor, hence income redistribution is done to ensure career development and *to avoid damaging rivalries among employees*, through "homogenization" of the wage curve.

From the perspective of social market economy, the company is conceived as a sustainable entity that has to be taken care of as it ensures its members' protection. From economic and social point of view this

economy type is superior to the Anglo-Saxon one (Ibidem, pp. 87-102). The *Renan* model has the following characteristics:

- High real monetary power;
- Accomplishing foreign investments, especially to control the export markets of the produced goods;
- Durable market conquest through progressive and methodical implementation;
- High industrial capacity and sustained commercial aggression;
- The best industry in the world and extremely high product quality due to the following factors:
  - ✓ Special attention to improve quality, reduce costs and increase productivity;
  - ✓ Vocational education, which combines apprenticeship with continuous training;
  - ✓ High financial efforts allocated for research & development.

  The social superiority of the *Renan* model distinguished through:
- Very high degree of security against sickness, unemployment, family disharmony;
- Reduction of social inequalities by providing aid to those who do not have the minimum means of subsistence;
- Option given to any citizen to advance on the social and economic hierarchy;
- Health is priceless, which means generalized social protection even if the share of such expenditure in GDP is lower (9%) to the USA (11%);
- Full employment is a national target;
- Poverty is eradicated;
- Implementation of solidarity wage policy;
- Existence of compulsory levies to ensure social performance;
- Society cohesion, harmony and homogeneity;
- Reconciliation and synergy between social justice and economic efficiency.

A strong centre of European neoliberalism was the **Vienna School**, also called the **Austrian School,** revived today under the name of the Neo – Austrian School (Beaud & Dostaler, [1996] 2000, p. 62). Carl Menger was a pioneer of this school. He highlighted the importance of time and uncertainty in solving socio – human problems, especially employment, being on opposite position towards the Keynesian doctrine. It is undisputed that Menger is a leading figure in the field of economics. His contribution to the development of economic study method is demonstrated by the large number of practitioners and theorists who continued his research, and later became famous founders of economic schools worldwide.

Principles of Economics, published in 1871, is Carl Menger's first work (*Grundsätze der Volkswirtschaftslehre* - economics - social science that studies the production, distribution and consumption of goods and services). The main idea of the Principles is the fact that Menger noticed a profound difference of the classical theory approach between the price basic factors and the actual elements that affect the behavior on the market in the process generating price determinants for the goods and services transaction. By the end of the 18th century (to be exact in 1870) The Younger German Historical School led with an iron hand by Gustav von Schmoller (1838-1917), who held a high position at the University of Berlin, strongly fought off the new elements introduced by Menger in the theory of economics.

Between 1878 and 1883 Carl Menger devoted himself to an intense methodological research period, by the end of which in 1883 he published *Investigations into the Method of the Social Sciences with Special Reference to Economics* (*Untersuchungen uber die Methode der Sozialwissenschaften und der politischen Okonomie insbesondere*). In this paper Menger states that the special nature of economic theoretical knowledge does not invalidate its character as a theoretical science. Menger and his followers' aim were to identify an epistemological justification, based on the theory of scientific knowledge, for

social sciences including economics. Their quest to clearly delimit the issues of the social domain was ruled by the search of certainties. Menger himself tried to establish a set of conditions to be met in order to generate accurate information, distinguishing between the empirical-realistic orientation to theory and the exact orientation to theory. He believed that both types of research can come up with precise information, if done correctly or the best way possible (Caldwell, 1990, pp. 236-237).

This book (*Investigations*) was based on a rigorous analysis of the history of economic theories and had a significant impact on the Liberal Economic Theory adapting to the new conditions specific to the economy market development, and on the scientific economic methodology that was given new working tools (Nicolae-Văleanu, 1996, p. 150). The main issue addressed was the knowledge of consumer's psychology and behavior as a decision prerequisite at the producer economic agents' level.

Menger's first publication was treated more or less indifferently as opposed to his second one which sparked heated reactions from the German economists resulting in a crusade against Menger himself and the Austrian School of Economy.

Carl Menger took the offensive in an extremely critical pamphlet *The Errors of Historicism in German Economics* (*Irrthumer des Historismus in der deutschen Nationalokonomie*) published in 1884. Immediately after, the debate over research methodology, known in history under the name of *Methodenstreit der Nationalökonomie* (*Methodological Debate* or *Methodenstreit of economics*), between the German Historical School and what would soon become The Austrian School of Economics/The Vienna School birth place of economic neoliberalism, had started. As a well known researcher and professor Menger had numerous supporters, among whom we mention Eugen von Böhm-Bawerk (1851-1914) and Friedrich von Wieser (1851-1926).

Between 1884 and 1889, Menger and his supporters carried out a sustained activity that resulted in numerous valuable contributions like, for example Eugen von Böhm-Bawerk – *Capital and Interest* – 1884, Friedrich von Wieser – *Natural Value* – 1889, and ended with the founding of the famous Austrian School of Economics. By the end of the 1880's the views of the Vienna School started to be taken into consideration by an increasingly large number of economic theorists from around the globe, namely France, Holland, USA and Great Britain.

Some of Menger's conclusions deserve a special attention (Menger, *Investigations*, p. 158). First he says that the nature of processes, that are at the basis of triggering or the evolution of social phenomena, are not a result of the teleological social factors (author's note- teleology has a Greek etymology and represents the study of design or purpose – discussion over purpose) but an unplanned or unintentional result of social motion. Second, the organic origin of social phenomena is given by the fact that they represent an unintentional effect of individual effort in a society, respectively efforts oriented towards the satisfaction of individual interests. Last, birth and evolution of social phenomena are a consequence of unwanted social results of individual teleological factors.

Carl Menger revolutionized the economic theory through his ideas, bringing into attention the role of human needs and the means of their satisfaction on individual level as an important aspect of market economy mechanisms' functioning and development. Menger's work meant a huge step forward in relation to the concepts promoted by the classical school theorists by demonstrating that we cannot treat communities as entities in the analysis of economic phenomena. He strongly affirmed that the individual and the means of his needs' satisfaction, with limited resources, represent the true source of establishing goods' value.

Menger strongly resisted the idea according to which the value of an economic good is generated by the amount of Labour necessary to produce it, mentioning that the essence of value is given by the way

the individual consumer's preferences are evaluated and by the way the consumer prioritizes his needs according to the intensity of their manifestation in given place and time. The novelty of Merger's theory, at that time, generated heated controversy, but gradually strengthened its position through the special impetus given to the development of economics and its adaptation to the economic realities.

Along with Carl Menger, Friedrich Hayek and Ludwig Mises are two prominent representatives of the Austrian neoliberalism, thanks to whom the intransigent neoliberalism became the main feature of this theory.

F. Hayek criticizes the Theory of general equilibrium developed by L. Walras and W. Pareto, saying that it is not possible to build a mathematically formalized economic theory, as it can be done in natural sciences (Ibidem, p. 64), especially when it concerns a difficult issue as the use of Labour force. In the 1920's Hayek, under the Swedish School influence, namely Wicksel, appreciated that there is an imbalance between the natural rate of interest, being under the influence of the return on capital and economic agent's preferences in a period of time, and the money rate of interest, determined by the banking system. This imbalance generates the processes that lead to price increase and decrease.

Under the influence of Böhm - Bawerk, Hayek argued that the investment process is an extension of the production process (includes investments in production processes), and the investment is primarily aimed at human and material resources. From this perspective, the economic crisis of 1929 – 1933, which was marked by unprecedented unemployment, was due to an over investment process, caused by a very lax monetary policy, which relied on the fact that the economy can be stimulated by inflation levers (Hayek, 1931, pp. 125-169). This idea was also supported by Lionel Robbins and Hayek's other collaborators. Hayek said that the majority of actions aimed at solving human problems must be managed so as to be loyal to a particular purpose, and economic calculation is not compatible with socialist planning (Hayek, 1939, p. 93), since *all forms of planning lead to totalitarianism*. Keynes had a different opinion, saying that, on the contrary more planning helps to avoid totalitarianism.

Friederich A. Hayek is the promoter of an original theory of market economy and the rule of law. His doctrine of social-economic nature has its essence in the following main elements (Nicolae-Văleanu, 1992, pp. 211–214):

- ***Catallactics or the theory of catallaxy*** (spontaneous order - katallatein (gr.) = change a thing for another, a mentality with another, or accept an enemy in the community and change him into a friend), defined through the spontaneous interconnection of different elements and characterized by the following aspects:
  - Order evolution is the effect of the way individuals act when they want to achieve their own goals;
  - Parts are ordered only as a result of how they influence each other;
  - When people pursue their own interests, they contribute to the *common good*, even if they do not realize this;
  - *The invisible hand* (Adam Smith's concept) must act freely on the market, so that what is created by people does not come in contradiction with the laws governing nature (the essence of spontaneous order is the market itself);
  - *Social institutions* are intermediary links between what nature has created and what people create.
- ***Market economy***, based on private property and free economic activity in a competitive environment, is the only normal form in which economy can exist, and it has the following features (Sută–Selejan, 1997, p. 173):
  - Is a self-regulating mechanism;
  - Coordination and organization of economic activities *is set by means of competitive relations;*
  - Cooperation through the market is a *game* requiring *skill* and *chance*;

- The term market economy must be replaced with catallaxy;
- Market exchanges are replaced by the catallactic game;
- Prices are the primary means of communication between businesses;
- Efficiency is incompatible with social justice.

❖ **Economic and social knowledge** has certain particularities:
- Is incomplete;
- Is uncertain;
- Is inarticulate;
- Cannot be subjected to formalization;
- Can be split into two levels:
  - ✓ *individual knowledge* – an empirical element that represents the support of quick decisions at the economic agent's level (Hayek, 1945, p. 521) – each individual has the special, unique information advantage over the others and can use it if he wants to achieve his goals;
  - ✓ *collective knowledge*, which is essentially abstract, determines the general direction of the economy and society;
- **Information use and management** at society level can be done only under free market conditions, given that the directed economies are characterized by informational blocks, or errors, delays, truncations and distortions;

❖ **The socio-cultural evolution** is done according to rules that have to be made spontaneously, naturally. Out of these rules we can mention:
- All individuals and economic agents have to comply with the property of the other;
- Everyone must carry out its contractual obligations properly and timely.

❖ ***Competition*** has the following features:
- Stimulates innovation;
- Offers new and unknown opportunities;
- Provides information regarding the evolution of the economic and social environment;
- Ranking role in consumers' preferences.

❖ ***Rejection of massive state intervention in the economy*** through various arguments such as:
- Need for rule of law in conjunction with a *civil society of the market economy*;
- The rule of law must ensure a stimulating and democratic framework for its market economy;
- Legislation, organization and rule of law institutions must be built on the rationality of human behavior;
- Laws must be non-discriminatory so that businesses and individuals are equal before the law;
- Ensuring individual freedom within civil society;
- An intervention in the economy should only have as objectives to ensure its spontaneous functioning and prevent monopolistic or oligopolistic structure formations, and under no circumstances should block private initiative;
- Limits of state action must be established by law;
- State's role is to ensure public services regarding public order, national defence, providing unprofitable services for businesses, etc.

In Hayek's view, the central concern of social sciences must stand for human behavior, the effects of human actions (especially those unintentional) and the subjective element (Sută-Selejan, 1997, p. 171). He believes that freedom is more important than economic prosperity, being the most valuable treasure in a prosperous and modern society, so it requires a legal order to ensure and guarantee freedom for all people (Ibidem, p. 172). According to Hayek, the market, as a self determined order, is a result of the interaction between the individual economic agents and information coordination among them as their decision making basis. Mises shares this view, and in addition promotes the importance of uncertainty and risks that arise from the decision and strategy making environment of individual agents.

Mises also rejects economic interventionism, saying that it does not allow the free market. Therefore, economic calculations are inaccurate because a mechanism of price formation and capital market and profit incentive is missing, which means that resources cannot be allocated efficiently. In his opinion, the theory of economics is the product of human action, as a manifestation and application of the individual will (Mises, [1949] 1966, p. 12). Human action is achieved when the individual senses the necessary means to achieve his purposes, thus acting more as *homo agents* than *homo economicus* (Marinescu, 2002, p. 61).

In other news, one of the most important contributions of Mises's is the business cycle theory, that the author has crystallized on the basis of three fundamental elements. First, we refer to Ricardian creation, regarding the relationship between the public and the banking sector. He considers that the successive operations of expansion and contraction of the money supply in circulation profoundly affect the state and the evolution of the economy. These operations generate periods of development and economic recession, and finally having a major impact on the labor market. Second, we remember the work of Eugen von Böhm-Bawerk who, among others, had a very important contribution in developing the method of analysis of the elements that influence the production structure, and also the factors which determine the capital formation and development (Böhm- Bawerk, [1884] 1959). Third, Mises was based on the concepts promoted by Johann Gustaf Knut Wicksell (Swedish economist, founder of the Swedish School of Economics) in monetary matters. Wicksell said that the banks' interest rate decisively affect the production and price formation mechanism because it is different than an interest rate called "***the natural interest rate***" which is established as a result of the relationship between the supply and the demand for money (Wicksell [1898] 1962, pp. 102-121).

Finally, Mises can be considered one of the most ardent defenders of the free spirit. In his opinion, "***freedom is indivisible***" and any attempt to restrict individual freedom does nothing but hinder creativity and expression of free enterprise. In a very vehement manner, Mises is extolling the capabilities of entrepreneurs and "***promoters***" saying that "they display more intellectual intuition faculties and the average writers and painters", referring to the latter's ability to initiate and successfully run a business (Mises [1956] 2008, pp. 106-108).

According to various authors, Mises is a central reference point for many individuals, regarding career development and scientific evolution, because he gave them a strong impulse to support the decentralized market economy-oriented consumer against the centralized economies (Paul, [1984] 2004, p 21). As a founder of a School of Economics, Ludwig von Mises inspired many creators of economic theories and he can be consider a key milestone in the evolution of modern economic thought.

Individualism and economic order are the fundamental elements of Hayek's theory. In his opinion, any workable individualist order is concerned not only by the relative remunerations the individual can expect from the different uses of his abilities and resources correspond to the relative utility of the results of his efforts to others, but also by how these remunerations correspond to the results of his efforts rather than to their subjective merits (Hayek, [1949] 1952, p. 21). A competitive market satisfies both requirements. In a system where information about the relevant facts are scattered and known by many people, prices can coordinate the separate actions of individuals in the same way as subjective values help the individual to coordinate the components of his own plan (Ibidem, pp. 85-113).

Hayek said that the price system must be looked upon as a mechanism for communicating information, if we are to understand its real function. Mises advanced the theory according to which a society based on extensive Labour division cannot be maintained without a price system. Thus the issue of preventing monopole and maintaining competition becomes more acute in those areas where the

property concept has been extended only recently, we make reference to property rights regarding inventions, patents, trademarks, copyrights and so on.

Hayek appreciates that the individual can only follow his own needs and takes the optimal decisions for himself if he/she functions in free surroundings. Private property represents the foundation of freedom and gives the possibility to create distinctive personalities and environments (Hayek, 1988, pp. 109–112). The only **moral** rules and regulations, taken into consideration by Hayek, are the **general and the abstract** ones that trigger the individual decision making in achieving his purpose. These general rules are meant to restrict everybody's freedom in an equable and non discriminatory manner, so that no one, not even the state, can violate someone else's freedom through **arbitrary law enforcement actions**.

The capitalists managing all the aspects of economic and social life are nothing else but **tools of an impersonal process.** Hayek believes that the worst aspect of such an attitude is that it takes into account only the overall aspects of the structural events and not the effects and final objectives of processes. Hayek's theory of market economy shows that the profit of a given capital, invested in a business, depends on whether the benefits outweigh the costs and the entrepreneur is given this information only by the relationship between prices (Ibidem, pp. 163-179).

The most efficient way through which producers can meet consumers' needs, consumers appreciated as unknown individuals, is based on **prices and profit,** which are considered **research tools.** People obtain what they want through the resources and information given by the market processes. Hayek states that **a person** with accurate information on the market **cannot be convicted** as being in the **pursuit of profit** and **profit contempt stems from ignorance.**

Hayek accuses the American socialists for unlawfully using the term ***liberalism,*** as they are in fact enemies of the private economy system. **The market economy** is a system composed by many **interactive and interdependent economies**. The end result has common features with its components, but also differences due to the following:

- Does not serve a unitary hierarchy of purposes;
- Can be likened to catallactics rather than the actual economy.

Mises can be considered "***an extreme aprioristic***". According to him the postulates that stress how consumers act to maximize their anticipated satisfactions, and entrepreneurs act to maximize profit, are "***considered to be sometimes empirically empty"*** (or tautological, since they repeat and respect the same ideas expressed in different ways) because (Hausman, [1984] 1993, pp. 183–189):

- Under the given circumstances it cannot be exactly determined if entrepreneurs and consumers believe that their actions are the best decisions out of many possible alternatives;
- As long as anticipated alternatives regarding consumer's taste and preferences are not known, a particular way of action based only on the previously mentioned postulates cannot be followed.

A leading representative of the Vienna School was **Joseph Alois Schumpeter**. He concerned himself with the economic cycles and economic destiny of capitalism. Schumpeter developed a comprehensive market economy system, writing more than half a century about the interrelationships and processes that occur between inventions, innovations, knowledge and industrial development, considering that they resemble the production of public goods (Hariolf Grupp, March, 1993).

According to Schumpeter's concept a number of special features regarding various aspects of economic life can be identified, such as (Nica, 1997, p. 72):

1. Fundamentals of entrepreneur and business theory are based on the assumption that the initiative freedom and the innovative, rationalized resource usage environment represent essential conditions to ensure progress and social economical development.

2. Continuity of creative processes allows entrepreneurs to achieve economic and social progress through which *they exercise their function of perpetuating the society*.
3. The fluctuating evolution of economic activity periodically generates significant increases in goods and services production, associated with real income growth, but also with *economic gaps,* that manifest themselves through building up stocks and a rising unemployment rate.
4. The interwar period and the first part of the 1940's are characterized by high unemployment due to the mechanisms of capitalist economy, not to cyclical developments.
5. Unemployment in itself, as a phenomenon, does not represent *a tragedy*. The real problem is represented by *subsidizing the unemployed needs,* and thus unnecessarily *prolonging* the waste of Labour resources, underutilization of Labour force and degradation status of individuals affected by unemployment.

In 1948, in his presidential speech to the American Economic Association, Schumpeter said that **"our repertoire of facts and tools renews itself over time, so that we can say that although ideologies slow advance, without them we could not advance at all"** (Hausman [1984] 1993, p. 248). However, he stated that the supporters of the capitalist economy will never be able to develop a doctrine able to gain the *adherence of the masses.*

Ludwig M. Lachman, who wrote **The Economic Individualism and Market Economy**, is an Austrian economist, concerned by the capital theory and predictions importance. In his view, the idea of balance has a well defined sense when related to economic agents (companies and households) as opposed to its application for human interaction. Moreover, the same idea was expressed by Mises (Ibidem, pp. 277-280). So, the market economy is not and cannot be a closed system that is in balance, or tends towards this state (Mises, [1949] 1996, p. 352).

Human action can be explained from two positions, a prospective one, as Hayek did, and a retrospective one. The prospective position explained by Hayek through the ***composition method***, which is based on individual plans (objectives, methods, resources needed, etc.). He believes that if they are compatible, then a steady balance state could be reached (Mises [1952] 1955, p. 212). The retrospective method is based upon the current or actual situation and analyses the historical stages that generated the present.

1.4.2 American neoliberalism

In USA, the neoclassical theory was revived in the late 1950s, in association with the recurrence of the liberal doctrine, as an effort of Chicago School economists. General characteristics of the neoclassical vision are (Beaud & Dostaler, [1996] 2000, p. 169):

- Individual or economic agents form the society;
- Economic, political and social life is a consequence of businesses interaction in a free environment;
- The constraints on businesses are of material and cognitive nature, thus their access to resources is limited;
- Economic agents act rationally, so their behavior is predictable.

The Chicago School was ***established*** by ***Frank Knight*** in the interwar period. Then it was ***led*** by ***M. Friedman*** and ***H. Simons***, Hayek being one of the promoters too. F. Knight insisted on individual freedom, the importance of uncertainty and the human element participation in the economy. Thus, in 1950, at a meeting of executive committees of the American Economic Association, Knight said that *a Keynesian and a believer in the monopolistic competition is one thing that he cannot stand* (Brown & Solow, 1983, p. 5). In the essay **"Value and Price"**, Knight emphasized the need for social control of economic life (Hausman [1984] 1993, pp. 134-135). He stated that the principle of freedom, in economic

sense, and the organization of economic life exclusively on the basis of free agreement between individuals meet extensive and complex limitations.

As a result, the society cannot accept individual goals and means as its policy objectives. In addition, the society cannot be indifferent to them. Under these circumstances, public authority should appoint the rules in order to impose **the economic game** at the highest level, and to align individual interests with those of the social group as a whole. Knight said that freedom, in itself, is a good that belongs to people, but they, in turn, must make decisions and take responsibility for the consequences of their decisions.

The Chicago School has been strengthened and has established itself internationally through Milton Friedman's personality. Representatives of this school were against increasing the state's role in economy, an idea supported by the neoliberals, even if it referred especially to protect the free manifestation of the competitive relationships (Braunstein & Pepin, [1998] 2000, p. 103). After Friedman, for example, if the public authority issues currency in excess, the short-term effect is reduced unemployment, but the long term effect is a deeper unemployment growth rate and an even higher inflation rate. This is a basic idea of monetarism, stating that in order to avoid these undesirable effects it is necessary for the money supply and the gross domestic product to raise at the same rate. In other words, government intervention is not necessary because the market is self-regulating.

Monetarism is a term introduced by Karl Brunner, as means of rejecting interventionism and showing confidence in the ability of market economy to maintain stability (Brunner, 1968, pp. 8-24). Monetarism advocates appreciate that economies are stable and that the market's free functioning ensures optimal resource allocation and utilization, together with the full employment of production capacity. The state should only provide a stable framework for economic activity and operations on various markets. The financial efforts, on one hand, implied in full employment generate instability of the growing economies, and the attempts, on the other hand, to reduce unemployment under its natural rate generate an accelerated inflation rate.

Milton Friedman sustained the importance of *market economy in support of freedom of choice and consumer sovereignty*. He made important contributions in the monetary and microanalysis fields, economic-mathematical model at a reduced scale, which can be used with better results in the development of economic forecasts (Sută-Selejan, 1997, p. 177). The advocates of positive economic science, initially promoted by John Maynard Keynes, believe that setting a minimum wage in an economy has the following effects (Hausman [1984] 1993, p. 194):

- Increasing the incomes of those who work for a lower pay than minimum wage;
- Increasing the income of some people with higher wages than the minimum wage;
- Minimum wage does not determine unemployment or employed in a disadvantageous position increase.

Opponents appreciate that minimum wage determines poverty increase through unemployment and disadvantageous employment increase, and annuls the favourable effects of earnings of those employed. For Milton Friedman, a follower of current neoclassical monetarism, *freedom is essential for the proper functioning of relations between individuals* and can be ensured only if the requirements of reducing the government's role to rational limits are followed, and if *private property, free market and agreements of will* are given due importance (Nicolae-Văleanu, 1992, pp. 216-219).

Despite the overt opposition to socialism, collectivism and planning, Friedman acknowledges some merits of Keynesianism, adding that government intervention in economy through certain macroeconomic policies designed to bring balance, stimulate growth and efficiency, is sometimes beneficial (Sută-Selejan, 1997, p. 179). In a way Friedman, by introducing the concept of ***permanent or sustainable income,*** completes Keynes' theory. He uses this concept, on one hand to develop the aggregate demand

function (enclosing as determinant factors the current income and other components), and on the other hand to establish the variables influencing consumption choices (volume and the dynamics of current, permanent, sustainable, long term income).

Friedman is known for his major contributions to the fields of monetary policy as a whole, and the role of money in the functioning and evolution of market economy in particular. In his opinion, the nominal gross national product value is mainly influenced by the money supply, if its speed of rotation does not change. Unlike Keynes, for whom economic stability is adversely affected by unemployment, Friedman believes that the greatest danger to economy is the upward trend of inflation.

Regarding employment/Labour force employment, Friedman believes that unemployment is not only justified but also useful (to some extent), because acting upon this phenomenon can ensure ***price stability*** and reduce inflation. Friedman introduced the concept of natural rate of unemployment (NAIRU or non-accelerating inflation rate of unemployment); considering that to a certain level unemployment is an outcome of the way market mechanisms operate.

Milton Friedman said that ***"in a free society, with free people no question is worthy to be asked"*** (Friedman, 1984, pp. 11-16). From a social perspective, the crucial issue sustained and set forth by Friedman is ***"the dignity of a free human spirit is a stream out of which everything that is good, beautiful and durable flows".*** From the academic point of view, Friedman addressed two areas of research in particular: the consumption analysis and the monetary theory. He made major contributions in the field of price theory, the expected-utility and the measurability of utility, methodology of calculation and analysis of rates of return.

Through his work, Friedman influenced, reshaped and organized the monetary theory. A theory of consumption function was published in 1957, introducing a distinction between two concepts of income – measured income (recorded for a particular period) and permanent income, a longer period concept according to which consumption is based on long term measures regarding income and wealth, as opposed to Keynes view that consumption is based only on current income. Generally speaking it is appreciated that Friedman's influence over American and international economic thinking is **priceless**.

In his analysis, Friedman highlights the key moments of economic development, under the influence of neoliberalism (Ibidem, pp. 27-33). He noted that the first measures taken by Ronald Reagan in 1980 were related to energy, when he lifted remaining domestic petroleum price and eliminated the governmental economic program. The opponents of the free market appreciated that oil prices will skyrocket as a result of these measures. Other measures taken by the Reagan administration were the change in the tax code, where the marginal individual income tax rate fell from 75% to 50%, and a series of laws to reduce public spending. Unfortunately the expected effects of market liberalization and inflation reduction were low.

During the same period of time other countries of the world changed their political orientation. For example in Great Britain the conservative Margaret Thatcher replaced the Labourist Jim Callagham, in France president François Mitterrand took Giscard D'Estaing, a Gaullist, place, in Germany Christian–Democrat Helmut Kohl changed the Social-democrat Helmut Schimdt. In the first 6-9 months Thatcher abolished exchange control (which was operational for 40 years), reduced the personal income tax from 90% to 60%, and privatized the transportation industry.

Friedman observes that after several months of transition, both in the US and the UK the situation remains stationary, without significant changes in economy functioning and without public expenditure reduction at the desired level. Rather these costs continued to rise, being seen as part of the income and taxes also increased as part of revenue.

Mitterrand shows that this generalization does not take into account the ideology, so in the first 6 months he nationalized the industrial activities, imposed higher taxes, increased minimum wage, and set forth a control over prices and wages in different areas. Although these changes were deprecated by the promoters of the free market, they demonstrated the ability of the new government to obtain new effects.

Unfortunately the effects were negative, as in two years the French franc depreciated three times, proving the inefficiency of the measures taken. This development took the French economy into a worse situation than the British and the American ones. All of the above show how difficult it is to make the transition from the command economy to the free market economy.

Milton Friedman appreciates that peak of the "iron triangle" of the command tyranny (the status quo) is represented by ***the beneficiaries*** of this orientation (farmers, maritime industry, automobile industry seeking Japanese import reduction, steel industry trying to prevent Americans to benefit from cheap imports and others with similar interests), ***the politicians*** (president, congress members, legislature and governors who obtain the funds necessary for the electoral process from the governmental program beneficiaries) and ***the bureaucrats***. Friedman noted that the major problem is ***the presence of the triangle in all areas***, such as:

- ***In military and defence***: the arms industry - members of Congress, the community services - bureaucracy;
- ***Education***: the beneficiaries are children and parents, teachers, administrators of educational institutions - bureaucrats, which administers government programs in education - members of Congress, legislators and educational committees.

He says that breaking these triangles can be done only by removing bureaucratic control in all areas, because there is no freedom of choice or opportunities for social groups and individuals, if the state and its institutions have a monopoly on ***the legitimate use of force*** and economic freedom is an essential precondition for the existence of political liberty (Nicolae-Văleanu, 1993, pp. 81-83).

In Friedman's opinion freedom can only translate through diversity and mobility, and economic freedom has the following characteristics (Friedman & Friedman, [1979] 1998, p. 53):

- Freedom of choice on how to use the income;
- Freedom to use available opportunities in accordance with one's own criteria of values;
- Freedom of property.

Friedman believes that the Keynesian revolution promoted, in fact, the justifications for government intervention expansion and the effects of the welfare state were that, for example, in the UK, expanding of social welfare system had come to suffocate the economy, due to very high levels of taxation and public expenditure (Ibidem, p. 81). The pinnacle was reached in 1979, when inflation and unemployment reached alarming levels. A few years later, the same thing happened in Sweden. Excesses of public intervention or ***"welfare mess"*** occurred in many areas (such as social protection, public assistance, housing subsidies and medical care) burdening the economies in countries that have applied this system.

In this respect, Friedman proposes abolishing the current system of social protection, so that the state functions are increasingly smaller, until each person will ensure one's own retirement, thus decreasing excessive taxation on income, and ***a too rigid and complex bureaucracy***. In this way, government's role would be reduced to the following prerogatives (Ibidem, pp. 23-24):

- Protect people against any kind of constraints, internal or external;
- Free trade facilitation;
- Maintain and strengthen the free society;
- Protection of citizens that *cannot be held responsible*.

In the American neoliberalism different theories have appeared, as for example the ***Supply and Demand Theory*** and ***the Theory of rational expectations.*** A. Laffer, N. Ture, M. Feldstein and J. Winniski were the ones to promote the ***Supply and Demand Theory,*** which emphasizes the negative

effects of the dirigisme over the American economy through discouraging work and investments, inhibition of private initiative and with serious results in the evolution of Labour productivity (Sută-Selejan, 1997, pp. 184-185). The proponents of this theory, unlike the Keynesian orientation, see the end of the crisis and achieving economic growth by stimulating the investment process, primarily through tax reduction on wealth and income.

This idea was promoted by the ***Laffer curve***, according to which taxes increase from low levels, and tax revenue also increases to a certain point, through a higher tax base due to tax reduction, and thus the investment process is encouraged. Unfortunately, the practical validity of this curve was not as expected.

Based on Laffer and Seymour's theory (*The Economics of the Tax Revolt*) income taxes, in general, and high income tax, in particular, have deterrent effects on economic initiative, to achieve savings, investment and productive efforts to enhance economic efficiency (Beaud & Dostaler, [1996] 2000, pp. 166-168). Also excessive taxation encourages an increasingly greater illegal economic activity and moonlighting.

Advocates of economic supply theory require a reduction of direct taxes, saying that the economy would grow so much faster and more sustainable. Therefore, emphasis should be placed not on the money supply, but on increasing productivity, quality of production, the introduction of new technologies and innovation. Decline and stagnation of economic activity is not determined by inflation, but by the deterioration of production and productivity due to excessive taxation. Thus, taxation should be linked to reducing government spending to eliminate the welfare state, which provides social security, and contributes to maintaining poverty through significant Labour erosion.

This theory reaffirms the virtues of the market and competition, its supporters being against any kind of state intervention and social regulation. According to supply economists some ***of the causes of high unemployment*** are *the minimum wage law*, *the high quantum of unemployment insurance* and *trade union influence*. Being considered ***libertarians***, by some even ***anarchists,*** proponents of this theory require the withdrawal of state intervention in key areas such as economic and social infrastructure, education, justice, military, health care and transportation.

The rational expectations theory has emerged from the neoliberal monetarism, referring mainly to the following aspects:

- Command is not able to ensure development, prosperity and economic stability for long periods of time;
- Economic decisions have to be adopted individually;
- Market mechanisms are the only ones able to solve current economic problems;
- For good economic activities there is no need of authoritarian state intervention;
- Prices and wages are flexible, so they are adaptable to the economic environment changes and are able to ensure the balance of goods, services, and Labour market;
- The adopted economic decisions are optimal as businesses and individuals benefit from all the theoretical conception underlying policies and economic strategies, as well as information on government programs;
- ***Unemployment is largely voluntary and inevitable***, because individuals do not accept the real wage they would get at a certain work place;
- Negative development of the economy is a result of wrong expectations of groups of individuals;
- Promotion of preference for ***fixed permanently applicable rules and regulations*** and ***rejection of state discretionary rules***.

A prominent representative of American "neo" liberalism is Paul A. Samuelson, disciple of Aaron Director, an important economist of the neoliberal school of Knight - Hayek. He said that beyond the appearance of mathematical model of ***the General Theory***, Keynes himself did not really understand his

own analysis. He said that fashion plays an important role in economic science. Thus, new concepts become fashionable, then change in phases, and a cynic would be tempted to speculate that if academic discussions are not themselves balanced, then the economic theories do not represent an oscillating divergent series either, as appreciated by Frank Knight too (Brown & Solow, 1983, p. 13).

The Chicago School monetarism enriched by numerous contributions the neoliberal doctrine. Adherents of this school are those who have promoted new ideas (Nica, 1997, pp. 72-77) on economic fluctuations due to changes in Labour supply and not changes in investment rate, considering that the main problem in most developed economies is inflation, not unemployment. This is why the money amount in economy must be carefully adjusted, so that economic growth policies are balanced. They assess that inflation can be controlled only if the amount of money growth rate is lower than the increase in the quantity of goods and services in the economy, and to achieve this goal the state should reduce or even eliminate social protection programs and address a regime of austerity on public spending.

From this point of view, and his ultra monetarist position, Friedman has clearly expressed himself against the neoliberal ideas promoted by the founders of this doctrine, him being a proponent of the need to establish ***spontaneous order*** and promote ***individualism***. Milton Friedman, as a formidable opponent of all that means restriction in economic activity, strongly resisted John Kenneth Galbraith's ideas, arguing that his main concept on price and wage control, presented in A *Theory of Price Control* (1952), together with the advantages of expanding state power, sustained by Hamish Hamilton in *The affluent Society* (1958) are very dangerous (Friedman, 1977, pp. 9-10).

According to Friedman, Galbraith has written for the general public, for people on the street, his doctrine being a solitary one, joined by a very few specialists, perhaps none. Because Galbraith presents a picture in which large companies are calling on government to plan their work, the doctrine may not be relevant today or in the future (Ibidem, p. 38).

Mincer, Schultz, Becker and Stiegler continued the development of the American neoliberalism and substantiated ***the Human-capital theory***. According to this theory wealth cannot be created without human resource input that is considered to be a form of capital that can be administered by the same rules as natural resources (material). Thus, investment in human resources must be prioritized both on business level and on national economy level. Based on the criteria of rationality in business activity, Becker and Mincer developed the ***Theory of investment in information and human-capital***.

Gary S. Becker demonstrates in theory and illustrates that the expenditure for education, expansion of scientific and technical knowledge, employee training are the most beneficial investments that contribute directly to economic development. A relevant example in this respect is the extraordinary economic success of Japan, Taiwan and other Asian economies. Lacking natural resources, these countries implemented their economic program on a well prepared, professional workforce. This proves, undeniably, the importance of human capital for economic growth and development. Investments that especially attract better educated workers and ensure a higher pay at work are progressing faster (Becker, [1964] 1997, pp. 25-27).

Undoubtedly, economic neoliberalism, in its various forms, has contributed to the analysis of many economic problems, including employment and unemployment. But there are also critics. For example, ***Jude Wanniski***, who is said to have developed the best course of economics from Adam Smith forward, criticized monetarism and other orientations of economic thinking in relation to full employment of work force. He said that the most serious problems caused by these economists, looking for full employment in the 1980s, did not result from their specific policy advice (Wanniski, 1978, p. 167).

He said that there is no significant difference between the situation in an economy where the deficit is 11 or 20 billion and the one where the money supply is increased by 3% or 5%. The problem that Wanniski noted is that monetarists and Keynesians believed that the global economic structure is the root of the economic negative situation in general and of the problems caused by full employment, in particular. Of course the economic neoliberalism has its faults/flows too. Some authors (Blaug [1985, 1992, p. 737) consider the following as the most important ones:

- The Cobb – Douglas function in which the relative weight of labour and capital are considered constant at the microeconomic level, but is not achieved with the same characteristics at the macroeconomic level;
- The idea that the welfare of a nation can increase by subsidizing the economic activities where the cost of production decreases and by increasing the tax in areas where the cost increases;
- Reward of production factors in accordance with marginal productivity, based on the fact that this policy is a clear rule to increase employment opportunities;
- Intensified use of capital or the average time of the production process is equated with a monotonous function in relation to interest rates, being in inverse proportion with the direction of business cycle oscillation;
- The theorem according to which the unemployment rate always tends to return to the natural rate of unemployment (NAIRU), because deviations from this level of unemployment are due to *the expectations of individuals to keep up with the events*, only a momentarily;
- The fact that the presence of perfect competition is a sufficient condition for an efficient allocation and usage of economic resources.

1.4.3 Romanian neoliberalism

Since its establishment, Romanian neoliberalism has had a strong local touch. This was more due to the manifestation of renewed liberal doctrines, than a typical economic neoliberalism, because of the country's economic and social development needs in the early twentieth century.

The most important theories promoted by the Romanian '*sui generis'* neoliberalism were (Nica, 1997, pp. 80-85) centred on subjects like: the need to accelerate industrialization, the transformation of industry in a leading branch of the Romanian economy, State's intervention in the economy, the status of Private property, the subject of an efficient economic strategy which must be focused on national interests, etc.

The need to accelerate industrialization was presented by Nicholas P. Arcadian, Mihail Manoilescu and Mitiță Constantinescu. In their view the real power of a nation lies in its economic power. The only area able to get the country out of poverty, backwardness, insecurity and to ensure employment is the industry. High productivity, which is obtained from industrial activities, ensures the rational use of resources and increased training and specialization of workforce. Manoilescu said that *the industry is the key to the modern states of wealth*, and Arcadian appreciated that the *joint integrated national economy* is able to ensure sufficient quantities of manufactured products for domestic consumption and a surplus for export. ***The transformation of industry in a leading branch of the Romanian economy*** would be able to generate the following effects:

- Technical upgrade and improvement of agricultural activities;
- Higher living standard of all social categories;
- Improvement of the exploitation degree of resources, especially human resources from rural areas;
- Reducing losses due to unfavourable external economic exchanges.

However, Virgil N. Madgearu, as a representative of Peasants Party (or Rural Party – in Romanian Partidul Țărănist), warned that industrial development should not be prioritized against other sectors of national economy (Madgearu, 1940, 208-262).

State intervention in the economy, particularly promoted by Victor Slăvescu, according to which the neoliberal state must have specific features, such as:

- To intervene systematically in all areas when the public interest so requires;
- To coordinate, to organize and mobilize the nation's efforts;
- To reduce the enormous gap between rural and urban areas;
- To become a powerful economic entity, to come to the aid of private initiative through protectionism, if necessary, tax, budget, to stimulate supply, etc.

Private property is considered the foundation of free initiative, decision and action of businesses. Also, the national economic strategy must be ***focused on national interests***, proposing to be involved in a competitive economic activity through our own power, a theory promoted by Vintilă Brătianu. As it can be seen, the Romanian neoliberalism did not have many common elements with the one promoted in capitalist countries with a high level of economic development (Nicolae-Văleanu, 1992, pp. 227-235). However, out of the most important similarities we can note the following:

- Enrich the liberal doctrine promoted by Adam Smith with economic theories built taking into account the economic, social and political transformation at international and national level;
- Support government intervention in economy but more as a command orientation than neoliberal;
- Implementation and market economy functioning, along with *theorizing its virtues*, etc.

The most important differences of the national (Romanian) neoliberalism compared to the international one are as follows:

- In addition to maintaining an optimal functioning market economy, the state's role is to develop a flexible planning of a general approach, with *mandatory measures*, if necessary;
- Accelerating the economy industrialization to enhance productivity, better usage of the natural resources, raise the living standards of citizens of the country etc.
- Attracting investors and foreign capital without affecting the national interests;
- Promoting the country's integration into the international value system and increasing its role in the international division of Labour;
- Re-emphasis on social and economic problems (inflation, unemployment, poverty, the existence of large income gaps, etc.);
- Taking into account the specific features of Romanian agriculture, which is much less efficient compared with other countries.

The most important representatives of Romanian neoliberalism are ***Mihail Manoilescu*** and ***Ştefan Zeletin***, even if neither of the two was a member of the National Liberal Party (Sută-Selejan, 1997, p. 303). Mihail Manoilescu (1891-1950) argued that the role of private property should not be an absolute one, as the diversity of *tools* used to stimulate private initiative is more important. In his view, the development of productive forces and increased productivity were of paramount importance at the same level as the need to increase quality and competitiveness of Romanian products. Thus, he considered it absolutely necessary to carry out a selection of priority industries, using the criterion of the highest level of productivity. Manoilescu developed ***a general theory of protectionism***, outlined in ***"The national productive forces and foreign trade"***.

"Theory of protectionism and international trade", published in 1986, suggest that the main idea of a national economic strategy is to protect the most productive sectors of the economy and rely on imports for products of inefficient industries. Some other important ideas of Manoilescu are as follows:

- Individual initiative is characterized by creativity, being the only one that can ensure success in business;

- The state should support private initiative;
- Industrial production superiority in relation to agriculture;
- Non-equivalent nature of international trade;
- The priority of national interest;
- Economics is a science for the masses, which must be customized for each part of the national economy;
- The need to develop national economy and increase its efficiency and so on.

Ştefan Zeletin (1882-1934) considered that the fundamental feature of neoliberalism is to diversify and enhance the state economy, in order to support private economic agents, mediate and settle conflicts and improve economy organization (Zeletin, 1927). He said that the industrialization of Romania should pursue three objectives, namely economic development of the country (including increased efficiency and competitiveness), strengthening of state independence and national defence. For this reason, Zeletin considered that the most important industrial branch is heavy industry. In his view, although he was a supporter of protectionism, unlike Manoilescu, protectionism should be nuanced depending on the particularities of the national economy.

Anghel Ruginǎ (1913-2008), a neoliberal formed in the spirit of the ORDO School, says that any success or failure of economic policy has its origin in the theories that formed the basis of these policies, especially if those theories have been applied in practice (Ruginǎ, 2000, pp. 239-240). Ruginǎ, who began his academic career at the University of Freiburg in 1944, where he worked with Professor Walter Eucken, notes some ***weaknesses in the classical school***, for example:

- British classics *have not developed* a second part of the economy, namely *the theories of applied economics*. Therefore they did not use the practical reasoning because of some wrong ideas taken from the French physiocracy. In support of this claim reference can be made to the incorrect image according to which once economic freedom is guaranteed, the law of supply and demand will automatically solve all relevant practical issues, briefly called *laissez faire* or *hands off* policy.
- The only type of applied economics policies represents essentially situations where the economy is governed by a network of or self-regulating mechanisms.
- Among ***the weaknesses of the modern school***, Ruginǎ, this time, addresses the following:
- Modern School is based entirely on empirical approaches that despite their attractiveness are not able to provide the necessary tools for finding effective and efficient solutions to solve economic problems. In fact, modern approaches only help to clarify issues rather than solving them.
- Application of modern economic theory relies on a policy of economic reasons of reversed type, comparable with classic versions of effect - assessment - effect. When inflation is present in the economy, the solution is the use of deflationary policies. If there is unemployment, it is the duty of governments to create jobs, directly or indirectly. In fact, this claim concerns more the command orientation.

This kind of thinking is present in almost all social problems. In other words, in these situations only the symptoms are treated and not the causes which generate the economy disturbances and, in this context, the incapacity to solve anything of modern theories blocks any chance of success.

Another type of issues, which were the focus of Anghel Ruginǎ, refers to the two current images of capitalism (Ibidem, p. 319). This is about the current image with or without the welfare state (Welfare State - a system in which the state takes over health care and welfare of its citizens, particularly those relating to financial and social needs by means of GRANT-s, pensions and other benefits), which is ambivalent, ambiguous and, therefore, exposed to errors of understanding and interpretation. On one hand, current capitalism has a number of social virtues or positive aspects, such as:

- Preservation of human freedoms, even if not in a perfect form;

- Individuals have the opportunities to improve their own lives, even if not at an optimum level for all;
- Creating an open path for imagination and innovation in all areas of activity and knowledge;
- A government of delegated and limited powers from legal point of view (far from the optimal level of performance, but still human);
- Open and friendly relations with other nations, who wants to live in peace.

At the same time, Rugină remarks different negative features of contemporary capitalism, which he considers true social evils, like:

- Insufficient financial and economic stability;
- Low level of social justice, regarding the national income and wealth distribution;
- Financing of new technologies through capital formation out of compulsory savings, which together generate social problems of inequality and instability;
- Exposure of an abnormal concentration of economic and financial power at the expense of normal development of a free society;
- Encouragement of pure speculation, financed by credit investment banks;
- The deficit through budget spending, whether business is growing or in recession, which inevitably causes a burden for future generations.

As it can be noted, the Romanian neoliberal ideas were strongly influenced by protectionist doctrines, and by those promoted by John Maynard Keynes. Therefore, it is difficult to speak about the Romanian economic neoliberalism as a clear and coherent doctrine. The analysis of this doctrine can be done simply in terms of bits of theory, borrowed from the international neoliberal practices.

It has been ascertained that the neoliberal paradigm has both supporters and critics. During the development of economic theory since ancient times, there were arguments about the merits or limits of a doctrine or another. Important is that in terms of economic neoliberalism, we witness the specialists' efforts to modernize and improve it, in order to meet the changes in the economic and social environment, both globally and at European level.

In conclusion, the neoliberal doctrine is characterized by a diversity of views more pronounced than in any other economic school of thought. Furthermore, neoliberal theorists' views regarding Labour market are sometimes conflicting, several authors addressing this area from different points of view. In this situation, we believed that a conceptual clarification of key notions that economic neoliberalism operates with need to be clarified. This chapter aims to create a general framework needed to analyze some of the neoliberal concepts on Labour market, through the impact created on it by the practical application of the neoliberal principles.

2. Labour Market in Theory

Any scientific field operates with a large variety of concepts. In economics, this variety is even more complex as the interest for this area dates back to ancient times and the time frame of the economy evolving into a science has been long and in a continuous evolution. Understanding the basics of economics is in direct relation with the ability to perceive and follow the functioning of the whole social system.

Considering that labour is the focal point of economic activity we need to address in a separate chapter the terms related to the concept of labour market, labour supply and labour demand, together with employment and unemployment connected in an inseparable manner. The labour market is a highly sensitive area of economy that vibrates, much more than all the other markets, to the negative influences of the economic environment, and it takes a long time to regain its balance because of residual disturbances spread over long periods of time.

Given the fact that all specialists in economics have addressed, in a simple or a complex way, the labour market we consider it necessary to pay a closer attention to the different concepts, features and particularities involved. From our perspective there is a need to look at the influence factors, phenomena and processes in a broad and diverse way, because economics, unlike other areas, is in a perpetual state of term and category renewal.

Employment and unemployment, accepted by many as two sides of the same coin, one good, one bad, are two categories profoundly affected by the changes in current global economy (as a result of globalization and consolidation of informational society and as an effect of neoliberal economic influence on an extensive scale). Therefore, the purpose of this chapter is to explain the vast and complex problems related to the labour market in general, and employment and unemployment in particular, in the context of economic change at national and international level in the last decades.

2.1 The concept of labour market

Labour is the key element in the economy of every company. Profitability level, national economy efficiency in its whole and the quality of life for each individual depend by the way this resource is managed. Any type of activity, whether economic, social or other generates the need of employment in a given period of time, which can occur or not in the labour market.

Among the various markets analyzed in economics, the labour market holds a central place, as, sooner or later, every individual finds himself on it (Arnold, [2008] 2010, p. 302). The main function of labour markets is to facilitate the relation between the suppliers of labour services (workers) and the demanders of labour services (employers). If the two elements were homogenous, then *the meeting* would be accomplished simply and easily, but they are not and thus difficult to quantify (Frank & Bernanke, 2001, p. 561).

A general definition of the labour market would be that it represents the economic space in which transactions take place between the suppliers of labour as a work production factor and its users (Dobrotă, 1997, p. 383).

In fact (Adumitrăchesei et al, 1998, p. 193), *the labour market is a complex relationship* involving workers finding paying work and employees finding willing workers, together with social protection of labour production factor owners. From this point of view, the labour market has the following functions:

1. Ensures the balance between labour supply and demand.
2. Provides work resource orientation on territorial, professional and department level.
3. Ensures social protection policies defining, adoption and implementation.

These three main functions are to be performed in close interdependence, taking into account the fact that compared to other markets, *the labour market has some specific features,* such as: the existence of a permanent surplus labour supply, which generates unemployment; state intervention is relatively strong, through specific legislation; it is more sensitive to stimuli from other markets; exercises lesser influence over the other markets; segmentation is pronounced on multiple levels.

2.1.1 The specifics of the labour market

Peculiarities of the labour market can be approached from several perspectives. In general (Prahoveanu, 2002, pp. 102-104), the most representative features of the labour market are:

1. A country's employment potential is only partially negotiated on the labour market.
2. Transactions are influenced by various conditions, among which may be mentioned state of the market (under its regulations), economic, demographic, social, political, legal factors etc.
3. It is highly regulated due to the influence of various social partners, which often have divergent interests.
4. It is a market with imperfect competition.
5. It is a highly segmented market, so that wage negotiations are conducted in several stages.
6. It has a high rigidity due to the formation of active working population available for long periods of time, and because of the time required for creating new jobs through business development and investment.
7. Competition relatively low due to the heterogeneous nature of labour supply and demand.
8. It is a dual market because suppliers of labour services are elements of work place demand, and demanders of labour services are elements of work place offer.

Imperfect competition manifests itself on the labour market in different ways. Forms of imperfect competition include: *oligopoly* a market dominated by unions; *oligopsony* a market form dominated by a small number of powerful of business owners who dictate certain hiring standards and ways of wage negotiation. Some segments of the labour market can be characterized by *monopsony* (Hardwick, Langmead & Khan, 1997, pp. 370–373), where for a given area there is only one buyer of a good.

We also encounter the so called *closed shop* a form of union security agreement under which the seller of labour services can influence the volume of labour supply, and can limit the access to a certain segment of the labour supply (Medical Associations, Lawyers and legal services Union, Accountants Union etc.). Several specialists are concerned by *the causes that generate labour market **rigidity***. Some of the most mentioned causes are (Abraham–Frois, 1999, pp. 453–459):

- Imperfection of information and knowledge found on the labour market regarding work place quality and the *framework* of employment contract (Phelps, 1970, *Island Parable*);
- Union's general influence on setting minimum wage levels;
- Antagonistic relationships between those already employed and those entering the labour market (Blanchard & Summers, 1988);
- Employment contract typology, the employer offers wages above the minimum wage to stimulate employees and reduce fluctuations;
- Wages are established by stipulations in the employment contract, and negotiations are not simultaneous (Fisher, 1977, Taylor, 1980), neither regarding the negotiation period nor contract clauses that should be renegotiated periodically.

The labour market is characterized by numerous imbalances. For a particular type of work (Hardwick et al., 1997, pp 370-373), the equilibrium position is the point in which labour supply and demand

equalize, as seen in Figure 2.1 for an w_1 level of wage and an L_1 level of work force. Any wage different from w_1 generates an unbalance, that is for $w_2 > w_1$ we get a supply surplus, and for $w_3 < w_1$ a demand surplus of labour production factor.

The *labour force (as a production factor) is characterized by* ***friction***, and thus equilibrium of the labour market is hard to achieve. In addition to this there are other important factors that generate labour market imbalance, the most significant being wage policy, the heterogeneity of labour market, market segmentation and information.

Regarding wage policy, it can be appreciated that in general, wages are rigid (zero wage elasticity), especially in their decrease. Collective bargaining imposed by unions, is hindering individual negotiations. In other words, wage remains frozen at a certain level. ***Heterogeneity*** *of labour* stems from the fact that each type of work requires specific skills and qualities. This means that groups in the labour market may be regarded as non-competing, as migration from one job/profession to another is extremely difficult, sometimes impossible. So even if there is an employment surplus/lack in a field, it cannot possibly be completed with an employment surplus from another area.

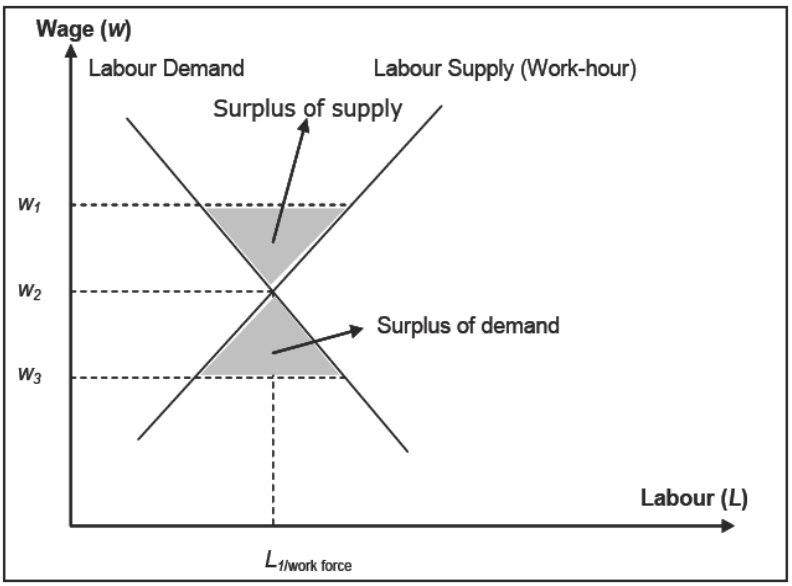

Figure 2.1 **Labour demand and supply. Labour market equilibrium**
Source: Abraham – Frois, G., 1999, pp. 453 – 459

The labour market is segmented in ***internal markets*** where the employers invest in young employees training thus promoting employee retention, and in ***external markets*** where the segmentation occurs on sector, regional and national level.

The *labour market* ***segmentation*** *concept* was approached by a lot of authors, including Adam Smith (1930, p. 71), who states that wages and profits can be equalized in different areas of activity, if elements like specifics for each activity, profession, unrestricted competition, barrier-free migration of labour and capital can be previously established.

Labour market segmentation can be approached from another point of view (Preda, 2002, p. 82), with reference to the fact that it is *divided into two sectors*: ***the primary sector*** which is balanced, stable containing higher-grade, higher-status and better-paid jobs, and ***the secondary sector***, unbalanced and unstable, with high levels of labour turnover, low wages, and with a low-skilled work force.

Other authors (Dobrotă, 1997, p. 384) consider that labour market segmentation can be seen from the following perspectives: jobs security, unionized or not, competitiveness, large or small companies and so on. An important aspect of labour market is information that can be costly, thus finding a new work place is difficult.

Other experts (Prahoveanu, 2002, p.104) note other features that make the labour market different in comparison to the other markets, for example:

- It is a *contract market*, also known as *negotiated* or *consensual,* as it is *increasingly* influenced in its structure, functioning and *dimensions* by the conventions and agreements between social partners;
- With the globalization and integration we notice that the national labour markets and *the global labour market* are in an early stage of restructure and reform in comparison to the other segments of the world market;
- It is a market with a *derived demand for labour* as it depends on the companies' demand for output if the output falls there is less labour demand and the work force will be reduced; these changes are generated by the phenomena and processes developed by the other markets;
- It is a *leading market* through the laws governing its operation, and due to the decisive role played by human resources in achieving economic growth;
- It is a market constantly under the influence of *disturbing factors,* thus being in a perpetual state of tension and transformation etc.

2.1.2 Labour demand and labour supply

The main elements of any market are supply and demand. Labour market and its components, labour demand and labour supply, are strongly influenced by how demand and supply develop, evolve, under different conditions, on the goods and services markets (Arnold, [2008] 2010, p. 310).

2.1.2.1 Labour demand

Labour demand expresses companies' need for work (Dobrotă, 1997, p. 383), and can be defined as the demand of work force in the private and public sectors, depending on qualification categories, professions and special qualifications in a given period of time. Labour demand evolution depends on the current situation and the perspective of the following elements (Preda, 2002, p. 67):

1. Demand evolution for different categories of goods and services, and factors influencing their elasticity;
2. The weight of work force (as a production factor) in the entire volume of commodities used to produce a certain amount of goods and services;
3. The Substitution degree of labour with other commodities, and their elasticity.

Labour demand has various particularities, as for example (Prahoveanu, 2002, pp. 104-105): it is *dynamic* through the influence of economic development level, investment decisions, investment resources etc.; it is *heterogeneous* structurally and professionally; in short term it is *rigid* because it is difficult to create new jobs; demand representatives wait to obtain maximum profit from the used labour factor; its elasticity depends on wage level and dynamics, productivity, volume, production quality and structure, and the weight of wage costs in the total production costs.

The aspect that gives the labour demand a great degree of individuality is *labour hoarding*. Specialists in this field (Pissarides, 1993, pp 47-57) consider that ***labour hoarding*** refers to a situation where organizations are paying more hours than necessary to achieve current production levels. The labour hoarding concept can be defined by hours or by number of employees, being a phenomenon that occurs when working time can be reduced, without generating a production decrease. This phenomenon

does not occur when the demand for goods and production is high, it appears when consumers' utility decreases. In times of recession hourly wages are not reduced, workers being offered as long as possible the same salaries. Production theories, based on ***the neoclassical model of production function,*** assume that productivity must increase during recession periods, or at least remain at the same level. In reality the phenomenon is reversed.

In order to measure labour hoarding we start from the implicit assumption regarding the production function with short-term steady rates. If this aspect is combined with the assumption of a given volume of fixed capital we reach a function with constant (even linear) coefficients (a) regarding the amount of labour actually employed.

The difference between the value of actual productivity (a) and the implied value (a^*) is taken as a measure of labour hoarding, in which on short-term we have $Q = a \times N$, with Q being the level of total output, N labour employed to obtain the production, a coefficient of employed workforce expressing actual productivity/level (W) of total output.

In a cyclical peak a have the maximum value (a^*), and the equation:

$$N^* = \frac{Q}{a^*} \tag{1}$$

measures the minimum labour volume N^* needed to create Q the level of total output. As a conclusion we can appreciate that $N–N^*$ is the level of labour hoarding, same as:

$$W_a - W_{a^*} = \frac{Q}{N} - \frac{Q}{N^*} \tag{2}$$

Labour demand is a complex issue (Adumitrăchesei et al., 1998, p. 196), due to structure diversity, volume, trades and qualification level required by each activity field and it evolves rapidly under the influence of technical progress. *Labour demand typology* is diverse and follows various criteria. The following labour demand categories can be distinguished (Goga & Mărgineanu, 1999, p. 74-76):

1) *According to evaluation method:*
   a) Potential demand;
   b) Actual demand;
2) *According to determining factors:*
   a) Economic demand (workforce supply for a certain activity volume);
   b) Technological demand (depends on the technological level of the productive process);
   c) Social protection demand (it is conditioned by the need for internal security and protectionist considerations for the external competition);
3) *According to the time period it occurs over:*
   a) Short-term labour demand (a few months – a year);
   b) Medium and long-term labour demand (over a year);
4) *According to the quantity level* (labour volume) it refers to:
   a) Replacement demand (number of employees equals the number of losses from the labour market due to death, retirement, health problems or withdrawal for other reasons);
   b) Progressive labour demand (the influx of new entrants or re-entrants is higher than the losses);
   c) Substitution labour demand (generated in cases where the capital factor is substituted by the labour factor when insufficient activity development investment funds occur);
5) *According to the time involved in the work process:*
   a) Temporary or predetermined requests;
   b) Indefinite request;
6) *According to the international labour market development:*

a) Domestic demand;
b) External demand.

The evolution of labour demand is in direct proportion with the goods and services demand, thus if the unit price/rate increases then the goods and services supply will have the same evolution and the labour demand increases too. Labour demand elasticity can be assessed using the elasticity coefficient, which is calculated as follows (Arnold, 2000, p. 331):

$$k_{DL/w_h} = \frac{I_{DL} - 100}{I_{w_h} - 100} \tag{3}$$

k_{DL/w_h} = the coefficient of labour demand elasticity according to wage;
DL = labour demand for a category of labour;
w_h = the medium hourly wage for a category of labour;

I_{DL} = percentage index of labour demand evolution: $I_{DL} = \frac{DL_1}{DL_0} \times 100$ (4)

DL_1 = amount of labour demand at time t_1;
DL_0 = /amount of labour demand at time t_0;

I_{w_h} = percentage index of medium hourly wage evolution: $I_{w_h} = \frac{w_{h_1}}{w_{h_0}} \times 100$ (5)

w_{h_1} = average of medium hourly wage value at time t_1;

w_{h_0} = initial average of medium hourly wage.

When the value of the elasticity coefficient is higher than 1, labour demand is elastic, and when the unit value of the elasticity coefficient is lower than 1 but positive labour demand is inelastic. ***Elasticity of labour demand*** is under the influence of several factors, among which the following are the most important (Arnold, 2000, p. 336):

- *Product demand elasticity*:
  - ✓ if the product demand elasticity is high, than lowering the demand will generate an equal lowering in the work force, which implies that labour demand elasticity is high;
  - ✓ if the product demand elasticity is low, than a decrease for the product demand will generate and equal work force demand decrease, which implies that labour demand is less elastic;
- *Share of wage cost (W_C) in total cost (TC):*
  - ✓ If the share of W_C in TC is high, then any wage increase generates a substantial TC increase, which in turn generates product price increase, thus the product demand will drop and labour demand will be reduced with a high elasticity;
  - ✓ If the share of W_C in TC is low, then any wage increase generates an insignificant TC increase, thus there is a low or almost none product price increase, the product demand will drop a little or at all, and the labour demand will drop with a reduced elasticity, in this situation being almost rigid.
- *the number of production factors that can substitute labour:*
  - ✓ the higher the possibility of substituting the labour, the higher the elasticity of labour demand in an environment of labour price/cost change;
  - ✓ the lower the possibility of substituting the labour, the lower the elasticity of labour demand in an environment of labour price/cost change.

Labour demand depends on the efficiency of business operations. Thus, a company will continue to employ personnel as long as the marginal productivity of the last employed is higher than the additional wage the employer must pay (Frank & Bernanke, 2001, p. 553). If the tendency maintained, businesses will consider it profitable to continue hiring.

Any decrease of marginal productivity for a given level of income/real wage will determine a labour demand decrease, and any marginal productivity increase will determine a labour demand increase in a given field.

So, in terms of labour productivity of goods on various markets, labour demand is influenced by (Arnold, 2000, p. 339): native and learned skills and competencies; intellectual, physical and psychological effort needed in the work process; work specifics and particularities; work conditions, etc.

Other authors (Hardwick et. al, 1997, pp. 361–364) consider that labour demand evolution is influenced by the market value of marginal product $(V'_{mg})\, V'_{mg} = Q_{mg} \times p$, where Q_{mg} is the marginal product in physical units, p is product price.

A business will continue hiring as long as the wage is under the market value of the marginal product ($w < V'_{mg}$).

Once the market conditions change, and $w = V'_{mg}$, there is no more labour consumption increase , more so since V_{mgL} continues to decrease with new added labour units. As an effect of this influence we can estimate that the quantity of labour demand of a specific resource is given by the sum of labour demands (horizontally) of all the companies operating in a given field.

2.1.2.2 Labour supply

The labour supply ***consists of all the labour resources of a country*** capable and willing to work at a real wage rate (Dobrotă, 1997, p. 384). On the labour market, the labour supply is given by the working-age population of every country, and in most instances grows faster than labour demand (Adumitrăchesei et al., 1998, p. 197).

Generally speaking labour supply can be defined as the individual's disposition to work more, depending on the supplemental wage offered by the employer and which is higher than the individual's leisure time (Frank & Bernanke, 2001, p. 554).

The labour supply gives population the possibility to be in contact with all the economic and social structures. Labour supply is a *complex part* of the labour market, and can be defined as (Prahoveanu, 2002, p. 105): a special form of capital, the human capital; a main part of the consumption system; a productive resource; part of the labour force to be sold on the labour market. Labour supply has the following ***characteristics*** (Prahoveanu, 2002, p. 105):

1. It is a *dynamic* economic category under the influence of demographic (age, population health, aging degree of the working-age population, etc.), social (living standard, education, social status, etc.), psychological (attitude towards work, behaviour, etc.) and economic (work nature, job security, working conditions etc.) factors;
2. It is *heterogeneous* from the structural, professional, educational and occupational perspective;
3. Low level of substitutability;
4. It is *rigid* because of long term development;
5. *Reduced mobility* due to the difficult decisions on changing the workplace, home and specialization/activity area;
6. The work force expects the highest level of wages, salaries or other incentives for its activity in the employer's benefit;
7. The supply curve is *atypical,* as it needs to ensure the balance between utility (real wages and their dynamics) and disutility (fatigue, leisure time reduction, stress, need to rebuild work capacity etc.)

In Figure 2.2 the significance of the labour supply atypical character is shown, resulting that in case of over employment with an accumulated discomfort state, no hourly wage increase can determine further work at the same pace.

According to ***Alfred Marshall*** labour supply has the following five *particularities* (Blaug, [1985] 1992, p. 450-452): lack of capital market for work force (with respect to human capital market; the worker cannot be separated from his labour services; work force is perishable; lack of reserve funds to increase work force quality; specialized labour supply varies over a long period of time.

Workforce training and qualification represents more than a function to express workers future earnings, because they have control over their own knowledge and can use their skills in any work place. The worker doesn't beneficiate from some of the positive effects of the workforce training initiated by the employer.

Another group of factors that influence labour supply is related to *the marginal product of labour*. From this point of view, we must take into account the costs of training for a profession in a specific field (both for individuals and employers), the number of people qualified for this and the outcome of their work.

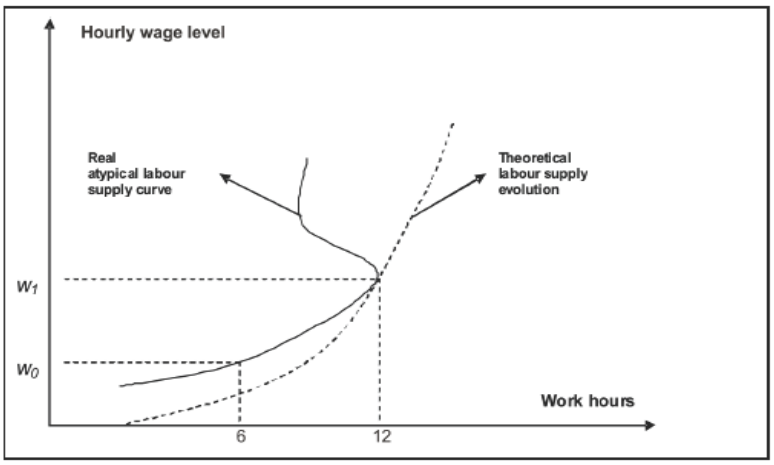

Figure 2.2 **Atypical labour supply curve**
Source: Adapted after Prahoveanu, 2002, p. 105

The dynamics of labour supply depends on other factors too (Hardwick et. al, 1997, pp 366-367), such as: completion of education age, retirement age, weekly working hours and holidays, etc. On this basis we can calculate *the ratio of economically active population*, and its relation to those already employed, those searching for work, and the total population.

Labour supply, although rigid, is not entirely inelastic. The longer the labour supply analysis the greater its elasticity. At the same time, there is ***a high degree of labour supply immobility*** generated by:

1. *Occupational immobility* – the workforce is heterogeneous and finds it is difficult to switch rapidly from one job to another because of differences in length of study, native qualities, specific skills and willingness to retrain;
2. *Geographical immobility* – in which people are often reluctant to relocate for work because of financial and non-financial barriers, as well as strong social ties with family, friends etc.

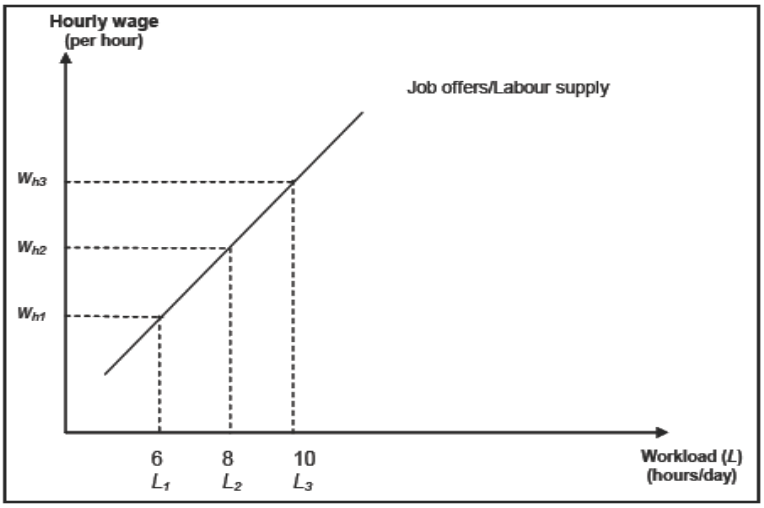

Figure 2.3 **Evolution of labour supply based on wage rate**
Source: Adapted after Arnold, 2000, pp. 338

The evolution of labour supply depends on several categories of ***factors***. One of these categories is represented by (Arnold, 2000, p. 338-339):

1. *Wage rate* (w_h) in a given type of activity, is in direct relationship with labour supply in the same field (a rise in the rate of growth of wages attracts a rise in labour supply), as shown in Figure 2.3;
2. *Wage rate dynamics* in other segments of the labour market;
3. *Non-monetary aspects of jobs* related to working conditions, features of the work process, work environment, organizational culture and more.

In the economic literature the term individual labour supply is used, and its evolution is given by the *backward-bending curve,* shown in Figure 2.4. Tangent points between the individual supply curve and the slope of daily wage represent the points of maximum utility for the worker regarding his or her willingness of working hours for a certain wage.

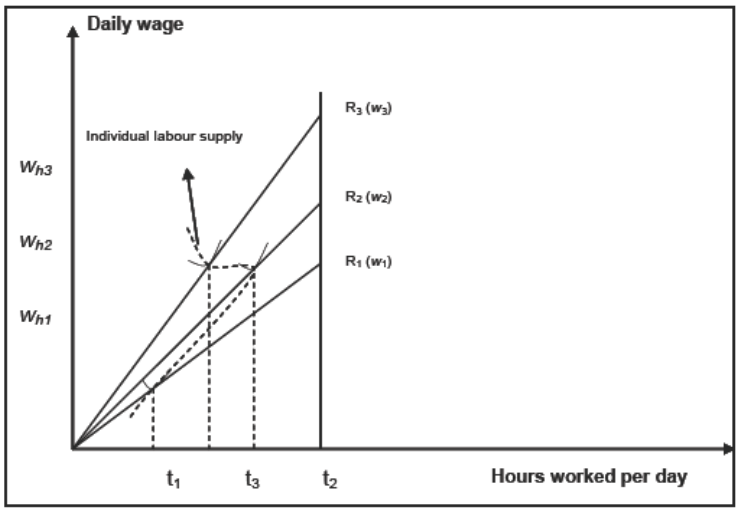

Figure 2.4 **Individual labour supply curve**
Source: Adapted after Hardwick et al, 1997, p. 367

The general curve of the individual labour supply results from the unification of these tangential points (Figure 2.5). This curve influences the activity rate which evolves in a tight correlation with the employment level, and is directly influenced by the ratio between income and leisure (Preda, 2002, p. 62).

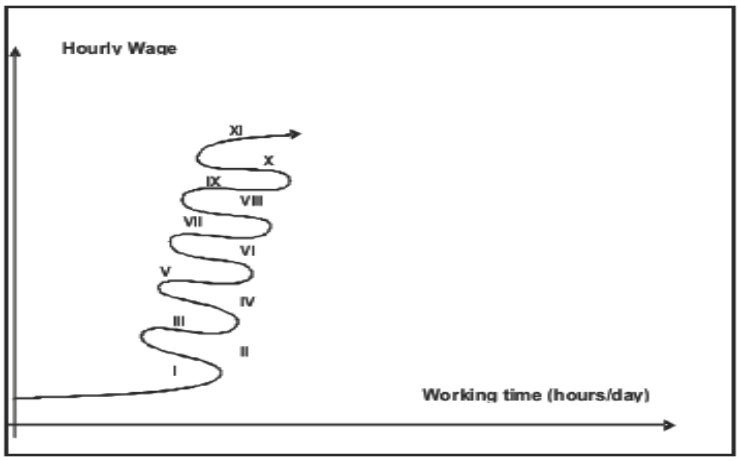

Figure 2.5 **Labour supply evolution in connection to the hourly wage**
Source: Preda, 2002, p. 62

An ascending evolution of the hourly wage generates two types of reaction at the individual level: the willingness to work more in order to increase income – this is the substitution effect and the desire to increase leisure time, while maintaining the same income level – this is called income effect.

The two types of effects act alternately in the long run of labour supply evolution (Figure 2.5). Thus if the substitution effect occurs in phases I, III, V and VII at a certain hourly wage level (w_h), then the individuals will want to sustain their current income level and gain extra leisure time.

This evolution takes place under the conditions of living standard increase and the global tendency of work time reduction. Hence the evolution of utility gained from the income earned working, represents in fact the evolution of labour supply.

In a more complex vision (Ibidem, p. 59) ***the most important factors influencing labour supply*** are:

- Population size, which is depending on the interconnections with the labour market, includes the following categories:
  - Workforce or active population (P_a): $P_a = P_o + U$, where P_o is the employed population, and U is the number of unemployed.
  - Potentially active persons (P_{ap}), which form a country's labour resources: $P_{ap} = P_{wa}$, where P_{wa} is the working age population.
- Working age population (P_{wa}), consisting of persons aged between 15 (16 in the UK and U.S.) and 64:
  - Workforce activity rate;
  - Number of working hours;
  - Work force quality;
  - Population structure on age groups etc.

To determine the dimensions of labour supply, a number of indicators are used (Răboacă, 2000, p. 10):

a. *Participation rate*, used in AMIGO type surveys (*Labour Force Survey in Households*), conducted by the National Commission for Statistics (*rp*):

$$r_p = \frac{P_{15,>}}{P_t} \cdot 100 \qquad (6)$$

Where $P_{15,>}$ is the population aged 15 and over, and P_t is the total population;

b. *Potential participation rate* used in the American model (r_{pp}):

$$r_{pp} = \frac{P_{16,>} - P_i}{P_t} \cdot 100 \text{ or } r_{pp} = \frac{P_{16,>} - P_{ni}}{P_t} \cdot 100 \quad (7)$$

Where $P_{16,>}$ is the population aged 16 and over, P_i is the institutionalized population, and the P_{ni} is non-institutionalized population;

c. *Participation rate* used at European level:

$$r_{pe} = \frac{P_{15-64}}{P_t} \times 100 \quad (8)$$

Where P_{15-64} represents the population aged between 15 and 64;

d. *corrected participation age:*

$$r_{ap} = \frac{P_{at}}{P_t} \cdot 100 \text{ or } r_{ac} = \frac{P_{ac}}{P_t} \cdot 100 \quad (9)$$

Where P_{at} is the total active population, r_{ap} represent the population activity rate, P_{ac} is the civilian active population, and r_{ac} civilian activity rate.

2.2 Workforce employment

Workforce employment is an essential coordinate of the economic system. The employment level is extremely sensitive to economic changes, being directly influenced by business decisions at a certain moment in time and by the legislative framework evolution.

2.2.1 Conceptual frame

Employment, unemployment and economic inactivity represent the basic description of the labour market. Workforce employment represents ***the core*** of the labour market being its most important component (Perț & Zaman, 2000, p. 117). From the evaluation point of view ***a person*** is considered employed if during the surveillance period falls within one of the following categories (Gardner, 1963, p. 91): employed by a private or public company; is sole associate/owner; is the unpaid household worker for 15 hours or more (if the surveillance period is a week) in a family business or in a farm; is employed but is on sick leave or vacation, doesn't work because of some work conflicts, or *took* some days off for different problems.

This manner of measuring the employment level is first a social one and only then an economic one. In the last two decades major changes have occurred regarding employment significance and content (Marchand, 1993, pp. 103 – 104). Nowadays there are various forms of employment, as for example temporary work, part time jobs, apprenticeship or internship, etc, and the phenomenon is in continuous diversification and growth. Employment changes and transformations occur more strongly in countries with a transition economy. In these areas there is a growing, ***visible underemployment*** due to a workforce surplus.

According to the criteria of the International Labour Office (ILO), underemployment exists when a person's employment is inadequate in relation to specific rules, or employment alternatives, taking into account the occupational skills of the person affected. A person can be included in the category of *underemployed*, when he or she cannot be considered neither unemployed nor employed, because he or she is in the pre-retirement, part-time/temporary schedule, during internship or probation etc.

According to Melvin W. Reder (1965, p. 186), another concept that is used is that of ***full employment***, which coincides with the maximum capacity utilization of capital stock, income level is

determined exogenously, and the relationship economy - investment leads to relative rates of distribution of labour. Staying on the same coordinates, in underemployment, the marginal physical product of labour is consistently lower than production capacity of companies, so the marginal cost depends on the wage rate, but not on production level. The price level is also independent of production. As a result, the relative distribution of the labour force is independent of national income, being solely determined by the rate of wage growth per unit of product.

Other authors believe that ***full employment*** is achieved when the working population is employed at a rate of 96-97%, so the unemployment rate is 3-4%, equal with the ***natural unemployment***. If this condition is true, then the volume of goods and services achieves the maximum level of consumer satisfaction (Dobrotă, 1997, p.403).

Keynes maintains that employment level depends on how revenues are spent (Keynes, [1936] 1970). From this assertion results that involuntary unemployment or a reduction in employment occurs when these incomes are excessively saved and investments are not stimulated by the interest rate. So in the Keynesian opinion, employment growth is achieved through stimulating demand, which in turn stimulates labour supply and demand.

2.2.2 Factors that influence employment

The main causes that have affected employment in recent decades can be grouped as follows (Pert & Zaman, 2000, p. 117-118):

- *Causes arising from the management of the labour market* in particular and *labour resources*, in general, on the following aspects:
  - unemployment reduction;
  - new jobs creation;
  - typology of measures for unemployment reduction and social protection for the unemployed;
- *Causes of an institutional nature*, which refer to:
  - labour legislation;
  - labour market institutions, together with their organization, management and functioning;
  - quality of relations between social partners (government, employers, unions);
- *Causes of social nature*, arising from:
  - job insecurity;
  - high instability of wages;
  - insufficient unemployment monies;
  - buying power reduction amidst a prolonged inflation;
  - precarious quality of life;
- *Causes arising from the quality of learning - teaching – training process*, on such elements as:
  - workforce's level of qualification and quality;
  - labour resources competitiveness', internally and externally;
  - adjustment degree of labour resources to the new requirements regarding quality, behavior/attitude towards work;
- *Economic causes*:
  - economic restructuring;
  - downturn in the economy;
  - structural, current and inherited imbalances, etc.

Underemployment is also subject ***to various influences***. Thus underemployment measurement and surveillance is performed to determine the following issues (Marchand, 1993, p. 104):

1. Number of hours worked on the reference week;
2. Number of hours usually worked per week;

3. Establish the situations and causes where the number of hours per week is less than the number of hours usually worked;
4. How many of the above statements are involuntary;
5. If there are available workers during the reference week to conduct additional activities.

Related to the labour market we cannot mention only the ***visible underemployment.*** This assertion is supported by the obvious existence of the invisible underemployment phenomenon. It is difficult to determine exactly how many people are involuntarily underemployed and available for additional activities, or how many are looking for a new job, or if the ones under surveillance work more (or less) than the usual weekly work hours.

It is also difficult to determine whether the people available for additional activities are the same with those looking for another job. Employment evolution is directly influenced by trends in real wage evolution (Frank & Bernanke, 2001, p. 560) and is due to the spectacular development of productive factors' productivity in general and labour productivity in particular.

The high rates of productivity growth have occurred as a result of technological progress and capital stock development and modernization. In the 1970' real income growth slowed down, due to reduced productivity growth, generating a slow labour demand increase and negative effects over employment level.

As a positive aspect of the late 1990' the revival of productivity growth can be mentioned, followed by real income growth and significant changes in the areas of employment and unemployment.

2.2.3 Employment evaluation

In terms of statistical and administrative employment measurement is necessary in any type of economic organization, since on this basis employment policies and strategies may be developed, depending on the situation on the labour market, in line with the current state and perspective of the national economy. Thus, employment ***monitoring*** and ***measuring*** has the following ***positive aspects*** (Marchand, 1993, p. 105-111):

- Can be used to cover all three aspects of economic activity on the labour market (employment, unemployment and inactivity), due to the in depths analysis data (a minimum of 40,000 households in some countries and a maximum of 70,000 in others).
- It rigorously follows the ILO international definitions as specified in the questionnaire/survey folders used.

The methods used to measure and monitor employment also have negative aspects. On one hand this annual/quarterly employment monitoring (for Romania the AMIGO questionnaires) is the only usable tool to estimate, from the ILO's perspective, the unemployment level and rate. On the other hand, due to errors in determining the sample, employment monitoring is not the best measuring method, in terms of quality and structure, of the annual changes in employment and unemployment levels.

To assess the workforce employment***, INSSE*** (France) calculates ***three types of unemployment rates*** (from ILO perspective) for periods of less than a year, as follows:

- *monthly national unemployment rate*, by sex and by age;
- *quarterly unemployment rate*, on regions and departments, as a share of the total workforce, or categorized agricultural and non-agricultural workers to highlight the occurrence of agriculture in different regions/departments;
- *infra-regional or infra–departmental unemployment rate*, in employment areas or regions.

The most important segment of a country's active population is the employed population. According to ILO *the employed population covers all persons 15 and over, who during the reference period did any work at all, in terms of goods or services, in one of the national economic areas, in order to obtain some form of income (wages or payment in kind) or other benefits*.

The employed population ratio is calculated as the difference between the employment rate and the unemployment rate. To define the employed population it is necessary to include two categories of persons who meet the criteria taken into account for the survey:

- Paid workers.
- Unpaid workers.

The employed population includes, in addition to those present at work, those that are temporarily absent because of: professional training; bad weather; lack of raw materials, energy etc; unfavourable development of the economic environment; temporary work incapacity; illness; vacation; maternity leave; activity disruption due to strikes etc.

Therefore to estimate its size does not represent the best method to evaluate the social productivity of labour. From a macroeconomic perspective, but also for international comparisons, the employment evaluation out in a structural manner, by sex and age, by activity areas and national economy branches, the employers' ownership etc.

2.3 The unemployment

Being unemployed is the worst situation for someone who had a job and lost it. Unemployment phenomenon surveillance has to be conducted in national and international contexts. Unemployment is a negative phenomenon, generated by economic activity sector or economy as a whole imbalance.

Unemployment reveals a scattering phenomenon of economic resources, affecting all aspects of economic and social life.

2.3.1 Unemployment definition

Unemployment can be expressed as a number or a percentage out of the total value of the workforce and the unemployed is the working-age person, who doesn't work, but makes specific steps to find employment for the current wages (Sloman, 2003, pp. 401–402). ***Unemployment***, similar to economic growth, has the tendency to follow a cyclical pattern.

At the beginning of the 1980's the unemployment rate increased due to recession, but by the middle of 1980's it started decreasing through an economic expansion, but only to fall back in the cyclical pattern a decade later.

As a note we may add that the general tendency of unemployment has been on the rise starting 1970 to this day. Unemployment is considered a national labour market dysfunction or imbalance due to (Dobrotă, 1997, pp. 402–403):

1. An imbalance between labour demand and labour supply, the latter being higher;
2. Emergence of a structural imbalance caused by deficiencies in resource allocation to sectors and areas of national economy, professions, regions, occupations, skill levels etc.
3. Functional imbalance of the national economy, promoted by the development and organization of economic activity, which negatively affects the production, productivity, etc.

From a different perspective, the unemployed is a person without employment, is available to work, cannot find work and takes specific steps to find paid employment, is listed at the labour and social protection office (Didier, 1999, pp. 210-213).

This situation is determined by (Hardwick et al, 1997, p. 594) the slow economic growth, new entrants and employers' hesitation. Other identified unemployment causes are (Adumitrăchesei et al., 1998, p. 199): cyclical economic fluctuations; scientific research and technological development with a direct impact on labour productivity; competitive relationships in all activity areas.

According to the criteria of the International Labour Office, the unemployed are persons aged 15 and over who during the reference period at the same time satisfy the following conditions: do not have a job and are not seeking any paid activity; are actively seeking work within the past 4 weeks and make specific steps like registering at a public or private vocational service institution, applying to employers, seeking

work places or markets, looking into the recruiting advertisements on newspapers, asking relatives and friends for assistance, and seeking equipment, collecting funds and applying for license for establishing enterprises, contacting unions etc.; are available to start work within 15 days if a position occurs.

Also, in accordance with ILO there are further criteria for being defined as unemployed, like the person is not employed to a paid job, is willing to work, or is waiting for the result of past recruitment activities, for the future starters who do not work in the reference period but is waiting for a new job and can start working at any time, is waiting for return to the career, has got a new job but is still waiting for work even if the term of reference exceeded.

The previous definition of unemployment, developed by ILO in 1983, is considered in some publications as the standard definition, and to include a person in the category of unemployed is to be made only if that person has already been established that is not working (Hussmanns, Mehran & Verna, 1990, p. 97). For those waiting for return to the career the definition of the Organization for Economic Co-operation and Development (OECD) needs to be taken into account*: in the lay-offs category are those persons who have their employment/activity contract suspended by the employer for a specified or unspecified period of time, at the end of which those interested can return to a work place with the same employer.*

The persons who do not work in the standard week but are waiting for a new job and can start working at any time are known in literature as "future starts". In many countries this period of waiting for starting a new job has not been explicitly defined yet, unlike countries such as Mexico, Sweden, South Korea, and United States of America where the waiting is limited to 4 weeks or 30 days (Ibidem, p. 103). Unemployment can be characterized by duration, intensity and level.

Unemployment duration may be a few days to several months or years, as in long-term unemployment, as there may be persons who have never had a job and maybe will never have one.

Unemployment duration depends on many factors, such as the number of unemployed, the rate of unemployment inflows and outflows (the total number of unemployed is variable, because there are more unemployment inflow and outflow sources, shown in Figure 2.6), the business cycle (in recession the unemployment rate increases but is short term, in economic development the unemployment rate decreases, but unemployment duration increases) etc.

Unemployment duration is the time period a person does not work, either till finding another job or until he leaves the labour market (Frank & Bernanke, 2001, p. 476). In many cases, it is considered that if unemployment duration exceeds 6 months, the group of people affected are long-term unemployed, if the unemployment duration is several weeks then it is short-term unemployment, and if the unemployment time periods are interrupted by employment periods it is chronic unemployment.

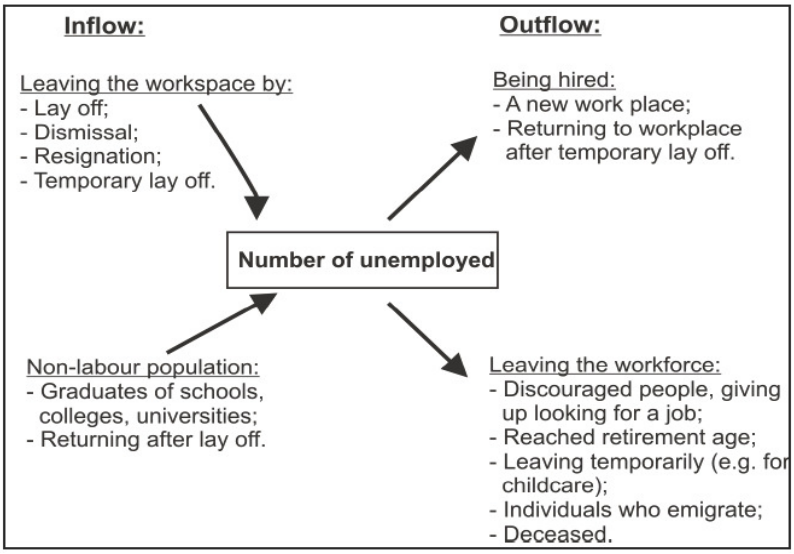

Figure 2.6 **Sources determining unemployment fluctuations**

Source: Adapted after Sloman, 2003, pp. 402–404

2.3.2 Unemployment typology

A job seeker can be found in one of the following situations (Pert & Zaman, 2001, p. 136-138):

1. Registered unemployed, according to Law no. 1/1991 and ILO criteria;
2. New starter on the labour market;
3. Returning into employment after a break;
4. Has never worked;
5. Employed seeking a new job.

The criteria to be taken into account in identifying the typology of unemployment are different. For example, in some publications it is considered that the main types of unemployment are (Prahoveanu, 2002, p. 320-328):

1. ***Disequilibrium unemployment*** occurs when the prevailing wage on the labour market is greater than the equilibrium wage, due to the trade unions influence, resulting in labour demand decrease but the wages are maintained at the same level or labour supply increase under the same conditions. For example, the disequilibrium unemployment can be:
   - *Cyclical unemployment* is due to reduced labour demand due to economic recession;
   - *Classic unemployment* is generated by maintaining the average wage at a level higher than the equilibrium wage;
   - *Pressure unemployment* occurs when the number of young people entering the labour market increases.
2. ***Equilibrium unemployment***, which occurs when economic activity is in a state of relative equilibrium, because there will always be people who seek a better paid job, or will wait for a period of time to accept a satisfying job. In this category the following are included:
   - *Frictional unemployment* occurs when a person is out of one job and is searching for another one. It generally requires some time before a person can get the next job.
   - *Structural unemployment* occurs because of shifts in national economic structure, due to technological progress or is of circumstantial nature (when the qualification of a person is not sufficient to meet his job responsibilities, when the marginal revenue product of a person falls short of the minimum wage that can be paid for the concerned job). Structural unemployment also depends on the growth rate of an economy as well as the structure of an industry.

- *Seasonal unemployment* occurs when the activities are affected by weather

In other cases (Dobrotă, 1997, 403-404), two types of unemployment are mentioned:

1. ***Voluntary unemployment*** is given by the number of people who do not want or cannot accept a job (Figure 2.7). The main cause of this type of unemployment is keeping wages at a high level, due to their rigidity at decrease under the influence of trade unions, legislation etc.
   Where:
   NW_e = equilibrium nominal wage;
   MNW_m = average nominal wage prevailing on the market;
   L_o = employed population;
   L_e = employment level when the market is in equilibrium;
   L_p = potential employment (existing offers);
   $L_p - L_e$ = voluntary unemployment (the shaded area in Figure 2.7).

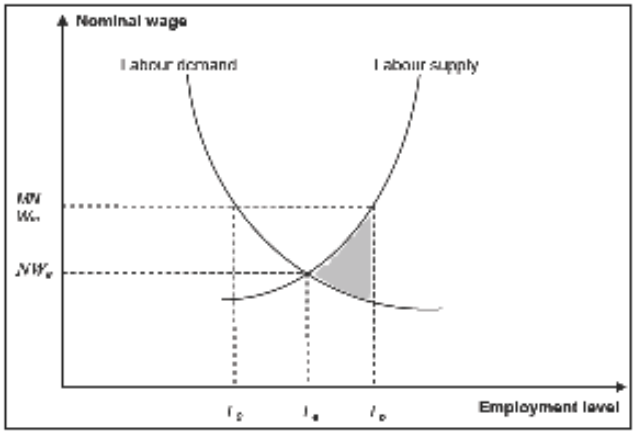

Figure 2.7 **Voluntary unemployment**
Source: Adapted after Dobrotă, 1997, p. 404

2. ***Involuntary unemployment*** is caused by wage rigidity at decrease, under the conditions when on the labour market there are people who want to work on an average wage below the one prevailing on market, but cannot find work (as we can see the shaded area in Figure 2.8).

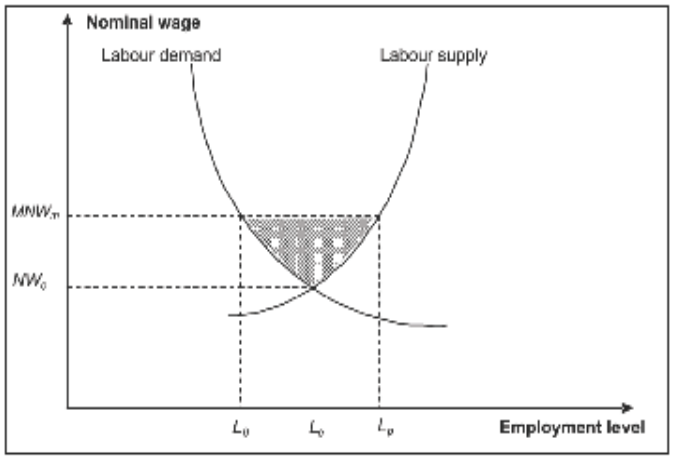

Figure 2.8 **Involuntary unemployment**
Source: Adapted after Dobrotă, 1997, p. 405

Other authors (Hardwick et. al, 1997, p. 602-608) mention the following distinct categories of unemployment, according to the causes that generate them:

- ***Natural Unemployment***:
  - *search unemployment*;
  - *structural unemployment*;
  - *seasonal unemployment*
  - *residual unemployment*;
- ***Involuntary unemployment***, also called ***Keynesian unemployment***;
- ***Voluntary unemployment.***

In this case, ***natural unemployment*** is given by people who have no job even if the labour market is balanced in the long term.

Search unemployment is in fact *frictional unemployment* and is determined by the normal changes that occur in the labour market. It can be characterized by different situations, for example (Frank & Bernanke, 2001, p. 561-563):

1. People refuse to accept a certain level of wages or working conditions and seek suitable employment;
2. Companies lay off unskilled staff, so they must look for other jobs;
3. Jobs are different through number of working hours, skills required, geographical position etc.
4. Workers are different because of the career development aspirations, skills, experience and working time availability;
5. Labour market is dynamic and constantly changing due to advanced technologies, globalization and the changing desires of consumers;
6. Workforce is dynamic because people move, acquire new skills, leave the labour market for childcare, return to education or change careers, etc.

Frictional unemployment implies low costs and has positive effects on economic growth and rapid changes in the labour market. The size of frictional unemployment (Figure 2.9) depends on the time needed to find an acceptable job (Sloman, 2003, p. 407).

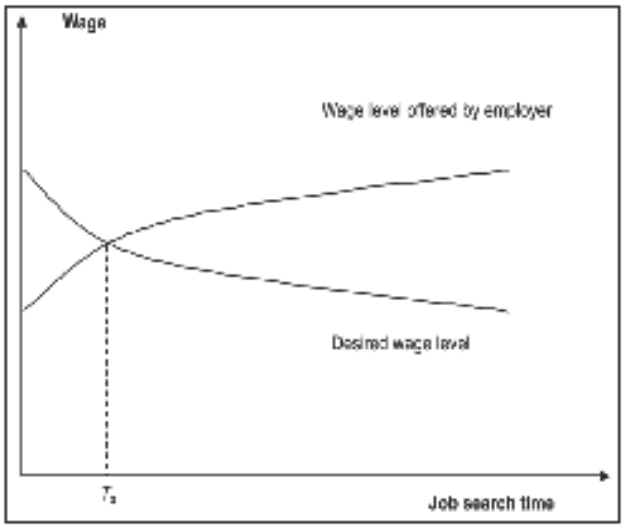

Figure 2.9 **Frictional unemployment**
Source: Sloman, 2003, p. 407

Where:
Td = time required to find a new, acceptable job taking into account the salary offered by the employer or desired by the individual

Structural unemployment is characterized as a negative form of natural unemployment, and arises from the following causes:

1. Structural changes in the demand for goods and services, where the frictional unemployment is long term due to occupational and geographic immobilization, mostly generated by lack of information of the people affected;
2. Technological progress, which is not necessarily negative, as it ultimately generates increased workload and, consequently, creates new jobs;
3. Changes in the importance of the various branches of national economy (decrease of some in favour of others);
4. Language barriers, discrimination, lack of necessary skills;
5. Structural characteristics of the labour market, which may include limitations on the minimum wage law, the existence of trade unions, etc.

Structural unemployment involves higher costs than the search unemployment because the unemployed have low productivity for a longer period of time, cause economic losses and lose their ability to develop other skills. *Seasonal unemployment* is also negative, but seasonal activities represent a source of temporary work. The last category of the natural unemployment is the *residual unemployment* being represented by people who have lost their physical ability and / or mental health and are unable to pursue an economic activity. In times of recession the course of economy is affected by disturbances and imbalances, hysteresis arises when a single disturbance affects the economy.

An example of hysteresis in economics is the delayed effects of unemployment that materialize in a long term, difficult to adjust labour market imbalance. Thus, the second category of unemployment, ***involuntary unemployment*** occurs when there is an overall reduction in aggregate demand for goods and services, which involve labour demand decrease (Figure 2.10).

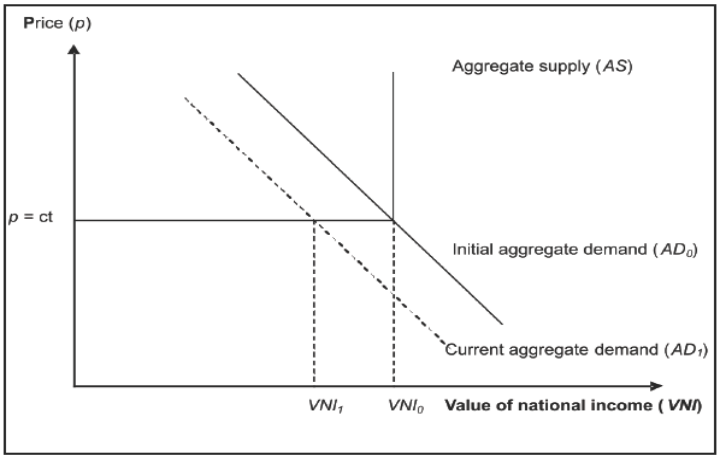

Figure 2.10 **The mechanism of involuntary unemployment**
Source: Adapted after Hardwick et al., 1997, p. 608

VNI_0 value of national income, for which aggregate supply AS is equal to aggregate demand AD_0, there is only natural unemployment, and the involuntary unemployment is zero. If aggregate demand decreases to the value of AD_1, the price stays at the same level, and then the value of involuntary

unemployment is not zero, because the decrease in aggregate demand leads to labour demand decrease, workers not finding work even if they accept lower wages.

Among the causes of aggregate demand decrease, in case of Keynesian unemployment, an investment, government spending and exports, money supply at a constant request for money, etc., decrease can be noted on one hand, and people's savings, fees and taxes imports at the expense of domestic production, the demand for currency at a constant money supply, increase on the other hand.

In analyzing these cases, the Keynesians start from the idea that, at least in the short term, prices and wages do not change downwards for the following reasons:

1. The influence of trade unions;
2. The existence of implicit labour contracts (which do not specify the employment conditions) and explicit (they specify the conditions);
3. Grant *effective* wages, boosting staff to conduct business with high quality and keep jobs;
4. The existence of *insider-s* (the employees), which can put pressure on maintaining wages at a high level, even if unemployment is high, so that *outsiders* (unemployed and non labour) may not be employed even if they accept lower wages, because employers consider it too expensive to qualify them as necessary.

Regarding voluntary ***unemployment***, the neoclassic believe that if wages and prices were perfectly flexible, then the excess labour supply would entail nominal wage cuts. This development would increase employment and increase production volume, so the upturn in the supply of goods and services would lead to lower prices, increased purchasing power and real value of money supply. Finally, following these developments the aggregate demand for goods and services, investment and work force employment will increase.

2.3.3 Unemployment costs

Company close down or activity reduction, cause the conversion of relatively prosperous areas in disadvantaged areas and the emergence of huge expenses or losses for business administration, employees and local and central administrations, as shown in Table 2.1 (Zirra, 2003a, p. 234).

The economic literature (Frank & Bernanke, 2001, p. 476) mentions several types of costs arising from unemployment, namely ***the social cost***, ***financial cost***, ***economic cost*** and ***psychological cost*** (Frank & Bernanke, 2001, p. 476).

The social cost of unemployment is difficult to quantify, generated by issues such as:

1. Demoralizing effect of unemployment (Hardwick et al., 1997, p. 599), which increases with duration of unemployment and getting older (in the 2000s, more than 25% of unemployed people in the UK for periods longer than one year are older than 50);
2. Family tensions, which often lead to divorce, alcoholism or domestic violence;
3. Drastic decrease of living standards, sometimes to the lack of food and shelter;
4. Anti-social phenomena (hooliganism, vandalism, robbery, etc.).

The financial cost is easier to assess. In the UK model, this cost is tracked on three components (Ibidem, p. 601):

1. *Direct aid* payments: unemployment benefits, unemployment financial aid, compensation payments, housing allowance, etc. (in Great Britain about £ 10,000 per year for each unemployed person is paid, so that for over 2 million unemployed the financial effort each year exceeds the sum of 20 billion pounds);
2. Loss of *income taxes*: on one hand payroll taxes (direct), and on the other hand because of reduced labour costs of economic agents (indirect);
3. Loss of *contributions*: contributions to health insurance, unemployment, pension fund etc.

The economic cost of unemployment refers to various aspects, such as:

1. Decrease of the amount of goods and services by incomplete or under-utilization of the work force;
2. Wasting large quantities of resources;
3. Loss of abilities of persons affected;
4. Decrease of goods and services demand because of unemployed income decrease.

Table 2.1 **Types of expenses / losses arising from unemployment**

No	Affected	Direct expenses / losses	Indirect expenses / losses
1.	Businesses	Lay offs protection or compensation expenses. Selling, disposing or assets preservation expenses. Loss of used investment funds.	Business collateral expenses out of the need of new suppliers. Losses caused by reduced revenue, resulting in goods and services consumption decrease. Suppliers' losses, which must find new markets for their products. Losses of collateral businesses, forced to change their business profile.
2.	Employees	Changing workplace expenses. Qualification profile change expenses. Moving expenses.	Medical care expenses. Loss of skills and abilities. Losses due to family environment deterioration. Dropouts of lay offs' children. Losses related to the increasing insecurity of employees and their families.
3.	Public administration	Closing and preservation costs of state-run companies. Compensation and social benefit expenses. State budget revenue decrease by failure to cash in the taxes from shut down activities.	Economic recovery costs of the affected region. Revenue decrease as a result of consumption decrease. Losses of collateral businesses caused by activity decrease or shut down. Loss of monies invested in education and workforce training.

Note: This picture of losses is far from complete. Covering these costs, which often represents a significant financial burden, produces disruptions of the economic system, which affect to a greater extent the already imbalanced functioning of the labour market affected by unemployment.

The concept of the ***psychological cost*** of unemployment has emerged relatively recently in the specialty literature as a separate cost and is linked to a number of problems encountered when becoming unemployed (Frank & Bernanke, 2001, p.477):

1. Increasing *stress* level for the unemployed and their families;
2. Loss of self-esteem;
3. Fear of losing control over own lives;
4. Presence of depressive states which often produce serious health problems, etc.

Experts consider that granting of unemployment benefits interfere with the operations of free market economy system (Cartwright [1959] 1965, p. 65). With regard to unemployment, it is considered that if the different aspects of jobs are identical, workers only take into account the relationship between income level and leisure, so that the growth rate of wages in different sectors of the economy does not reflect the instability of employment opportunities in those areas.

So, the system of unemployment benefits, which maintains workers' incomes at a constant level, whether or not workers are employed, will replace the lack of information that an unemployed person needs to choose a reasonably acceptable job, and corresponding to his/her wishes.

2.3.4 Unemployment evaluation

Work has two main sides, namely an economic one and a social one. This is why the *assessment* of employment and unemployment *statistics* is quite *difficult*. As a result, the phenomenon of unemployment may be underestimated, possibly for political reasons, or overvalued, by including in this category persons who are not eligible to collect unemployment benefits, for example: women who do not work because childcare; individuals working on the black market; people working in different places not declaring income.

For a *complete analysis* of employment and unemployment, it is not enough to determine only *the number* of people belonging to these categories, it is necessary to undertake *a structural assessment* (by age, sex or ethnicity, on regional, sector and industry level, etc.).

It is also equally important to make *the assessment according to the time factor* by measuring the average duration of unemployment and the period between two successive jobs. Typically, in assessing unemployment two categories of people are ignored (Frank & Bernanke, 2001, p. 477):

1. ***Discouraged workers*** - people who would like to work, but made no effort lately to find a job because they have repeatedly tried it and failed;
2. ***Involuntary part time workers*** - people who want to work full time but have managed to find only a part time job.

Including the groups of people mentioned above in the unemployed category would significantly change the statistical records. In February 2000, the official U.S. unemployment rate was 4.1%. If the ignored categories are included the unemployment rate is of 7.6% (a level which is almost double of the official figures). ***The unemployment rate*** is a sensitive indicator of labour market conditions.

A low unemployment rate means job safety and relatively easy to find one, good wages and good working conditions, as long as employers compete to attract and retain workers. Measurement of unemployment has different characteristics.

For example, in the ***U.S.*** the Bureau of Labour Statistics monitors on a monthly basis 60,000 households (Ibidem, p. 474). Each person aged 16 and over, is included in one of the following categories:

1. ***Employee (E)*** - full-or part-time, in the last week, or is on vacation or sick leave (being employed);
2. ***Unemployed (U***) - a person who did not work last week, but has held various activities in the last four weeks to find a job;
3. ***Not part of the labour force***/non labour ***(NLF)*** - if did not work in the last week and has not tried to find a job in the last four weeks (full time students and pupils, retired, disabled, housewives).

Based on this information an estimate of the people included in the three categories on national level is made and the unemployment rate (u_r) is calculated, expressed as a percentage between the number of unemployed plus workforce ($E + U$) and participation rate (p_r), which refers to the number of people of working age (PWA) and below retirement age who are actively participating in the work force or are actively seeking employment:

$$u_r = \frac{U}{E+U} \cdot 100 \tag{10}$$

$$p_r = \frac{E+U}{PWA} \cdot 100 \tag{11}$$

In the United Kingdom there are two methods of unemployment assessment (Hardwick et al., 1997, p. 595):

1. Computerized records of persons seeking assistance (social security or unemployment benefits) on the day the Employment Offices make the monthly payments (*NU* – number of unemployed);

2. The calculation of the unemployment rate (u_r):

$$u_r = \frac{NU}{LF} \cdot 100 \tag{12}$$

Where *LF* is the labour force and represents all persons engaged in the work process, those who are self employed, unemployed, the military and those who follow vocational courses in government programs.

In countries like USA, Australia, Canada, Japan and others, the unemployment evaluation is done according to the ILO regulations, which are more rigorous, but can be inaccurate in the way of choosing a representative sample. Experts consider that the mere emphasis of persons receiving unemployment benefits is a simple method, but minimizes the actual level of unemployment (Sloman, 2003, p. 401).

This method excludes the working-age people, available to work immediately for a salary, but are not eligible to receive unemployment benefits. Thus, if the eligibility changes, the number of people changes too. For example, since 1979 there have been minimum 30 changes in the conditions of eligibility. In the category of persons eligible for unemployment benefits cannot be included: people who re-enter the workforce, such as after child care leave; people who are registered in the educational system (leaving school and have no work); people over 55, who although do not have a job, the benefits that they receive are not considered unemployment benefits; persons temporarily unemployed; people looking for a part time job.

Standardized unemployment rates were included in the UK in 1998 to remove the shortcomings of measuring the number of people seeking unemployment benefits, are done quarterly. The structure of unemployment is also an important objective of the evaluation of this phenomenon because the unemployment distribution on different groups in society: geographically, by gender, by age group, by ethnicity, etc.

In the last two decades different types of employment and unemployment have emerged, particularly long term unemployment, which must be studied carefully in the way of development and adverse effects that these changes bring to the life of the people affected. The labour market as a central element in all markets is approached from different points of view by all specialists in the economy. Therefore, many concepts can be found on this topic. In addition, controversies related to employment are current, especially since no approach is comprehensive enough to be able to provide a consistent means of solving the complex issues of the labour market. For this reason we considered it necessary to pay special attention to different meanings of the concepts of labour market data, employment and unemployment.

At the same time, we made a summary of the main points of view regarding the characteristic features and specifics of these concepts, in close correlation with economic phenomena and processes that affect their development, focusing on specific employment and unemployment assessment models. Thus, we hope, we made a clarification of the concepts used in the sphere of employment and unemployment, in order to facilitate the understanding of neoliberal approaches to the most sensitive components of the labour market.

3. Labour Forces, Employment and Unemployment in Neoliberal Theories

Neoliberal approaches are highly varied, which accounts for a high number of sometimes even contradictory theories drawn up in the field of labour force, particularly that of occupancy and unemployment. Thus, defenders of the natural rate of unemployment, introduced by Milton Friedman, take the relation between inflation and unemployment as their starting point.

Other theoreticians rallied around the theory of human capital, strongly supported by Gary S. Becker, outlining the importance of education in increasing the level of employment and decreasing unemployment. There are also theories stressing the relation between work satisfaction and occupational conditions, as the one purported by Christopher T. Whelan, or the relation between employment, on the one hand, and the metamorphoses of social work given the consolidation of knowledge-based society and expansion of globalization, on the other hand, as analysed by Jean – Noël Chopart.

We will further on refer to some of the most representative neoliberal theories regarding the labour market, employment and unemployment. But in order to render the complexity and specificity of neoliberal approaches to employment and unemployment comparative analysis is called for, taking into account the theories these approaches are confronted with in terms of grounding scientific argumentation. These are Keynesian theories, based on the concept of full employment of the labour force, a mainstay of economic policies between 1930 and 1950.

3.1 The Keynesian Concept in the Field of Labour

The premises for the emergence of John Maynard Keynes' doctrine can be deemed dramatic to say the least. In 15 June 1928, Herbert C. Hoover became President of the United States. He vouched in his inaugural speech that America is closer than ever and than any other nation to fully eradicating poverty and to entering an age of eternal growth and welfare for the American people (Vianu, 1973, p. 340). Yet the dream of creating a rich, carefree society would be blown away with the onset of the great crash of the world economy, which broke out in the USA. During the 44 months of crisis, industrial output was halved, purchase prices for farm products were down by nearly 60%, USA foreign trade dropped by 26%, and in March 1933, during the crisis peak, the numbers of unemployed reached 17 million people.

Experts believe that in 1933 the American living standard was back to that of 25 years before the onset of the crisis (Heilbroner, [1953], [1994], p. 271). It is against this background that Keynes published, in 1930, his *Treatise on Money*, in which he attempted to uncover the causes for the alternating periods of prosperity, stagnation and decline.

In *The General Theory of Employment, Interest and Money,* published in 1936, Keynes tries to find a model of treating economic depression. According to his concept, the evolution of market economy is determined by the action of people's fundamental psychological inclinations, which, if left unchecked, affect the economic balance and give rise to crisis and unemployment (Nicolae-Văleanu, 1996, p. 172), which is exactly what happened during the 1929–1933 crises.

In drawing up his theory, Keynes started from the analysis of classical theses on labour force use, based on two fundamental postulates (Keynes, [1936], [1970], p. 41):

- The first postulate generates the labour demand curve and refers to the fact that the wage is equal to the marginal product of labour, meaning that the wage of an employed person is equal to the value

which would be lost if employment were to be reduced by one unit (Keynes demonstrated that this equality may be disturbed if competition and markets are imperfect);

- The second postulate generates the labour offer curve and refers to the fact that the utility of the wage when a given volume of labour is employed is equal to the marginal disutility of that amount of employment. (Disutility must be here understood to cover every kind of reason which might lead a body of men to withhold their labour rather than accept a wage which had to them a utility below a certain minimum, and Keynes believes this gives rise to voluntary unemployment, while classical postulates do not admit the existence of involuntary unemployment).

The Keynesian view is that the amount of employment is fixed at the point where the utility of the marginal product balances the disutility of the marginal employment. It would follow that Keynes believes there are the following means of increasing employment, in contrast with the classical view that employment would rise if individuals accepted a lower wage (Ibidem, p. 49):

1. An improvement in organisation and in foresight, which diminishes frictional unemployment;
2. A decrease in the marginal disutility of labour, as expressed by the real wage for which additional labour is available, so as to diminish voluntary unemployment;
3. An increase in the marginal physical productivity of labour in the wage-goods industries);
4. An increase in the price of non-wage-goods compared with the price of wage-goods.

At the same time, Keynes demonstrated that classics hadn't realized that if labour offer is regarded as exclusively dependent on real wages (determined by the agreements concluded between entrepreneurs and workers), then the labour offer will shift with every movement of prices.

Another novelty to employment introduced by Keynes refers to the entrepreneurs' expectations as to what the consumers will be prepared to pay for the goods that are to be produced (Ibidem, p. 81). Therefore, Keynes considers that expectations can be short-term when goods are purchased directly from the manufacturer and long-term in case the respective goods are purchased once they've been included by other manufacturers in their own products.

The issue is that a change in expectations will only produce its full effect on employment over a considerable period, while the level of employment at any time depends not merely on the existing state of expectation but on the states of expectation which have existed over a certain past period.

Starting from these postulates, Keynes drew up ***a new theory of employment*** (Ibidem, p. 237), outlining the factors determining the level of the national income and of the employment at any given time. In building his model, Keynes considered (Hansen, 1953, pp. 165–169) that certain elements are taken as given, such as the existing technique (the technology used), the existing skill and quantity of available labour, the existing quality and quantity of available equipment, the degree of competition, the tastes and habits of the consumer, the disutility of labour, as well as the social structure, which determine the distribution of the national income (these factors are not assumed to be constant; but merely that the effects and consequences of changes in them are not considered).

The model also comprises ***independent variables*** (the propensity to consume, the propensity to liquidity, the expectation of future income based on the ownership of capital goods, or the schedule of the marginal efficiency of capital - the investment schedule, as well as the amount of money, fixed by the monetary authority) and ***dependent variables*** (the volume of employment and the national income, measured in wage-units, and the rate of interest). It is generally regarded as incorrect to place the rate of interest under dependent variables, since Keynes demonstrates that this is influenced solely by the liquidity-preference and the monetary mass, while other specialists consider these factors of influence insufficient.

Keynes notes that the respective elements influence dependent variables yet do not fully determine them, so that the volume of labour-generating investment is determined by the physical conditions of the investment offer, the expectation of future yield from capital-assets, the psychological attitude to liquidity and the money mass. An increment of income, given an increase of employment, will carry with it an increase of consumption, yet not to the same extent; and vice-versa, a decrease in consumption will carry a lesser decrease in income. The employment function formulated by Keynes is the reversal of the aggregate supply function (Keynes, [1936] 1970, p. 290), given by: $N_r = F_r(D_{wr})$, where N_r represents the number of individuals employed in industry r, which is a function F_r of the effective demand in that industry, D_{wr}.

This function can be extended to the whole economy, given as $N = F(D_w)$, where N is the number of men employed in an economy, and D_w is the aggregate effective demand. Keynes mentions that if effective demand is insufficient, then labour is not fully employed, either at industry or at economy level. Consequently, the level of employment can be increased if the necessary measures are applied to increase effective demand and cash-in.

Another concept Keynes introduced is that of the ***elasticity of employment,*** defined as the response of the number of labour-units employed in the industry to changes in the number of wage-units which are expected to be spent on purchasing its output.

This indicates that the variation of the level of employment is dependent in fact on the evolution of the aggregate effective demand and of the way the increase in aggregate demand is spread among the various commodities. The effect is that, if the increased demand is largely directed towards products which have a high elasticity of employment, the aggregate increase in employment will be greater than if it is largely directed towards products which have a low elasticity of employment.

The inevitability of involuntary unemployment is a cornerstone of Keynesian theory, and this can be limited with the help of adequate economic policies but it cannot be fully eliminated. The conclusion of his theory is that, when the mechanisms of market economy are allowed to function automatically and without any hindrance, the cyclical movement of economic life cannot be controlled.

State regulation of the current volume of investment, which influences the propensity to consumption, can ensure a high level of employment, close to full employment, since the wage level is determined by the level of employment, not by the income.

Classical economists took the view that employee resistance to a decrease in wages in responsible for unemployment, as opposed to Keynes, who stated that a decrease in the utility of the workforce has no bearing on nominal wages (Zirra, 2000, pp. 90–91). Keynes only party agrees with the classical view of unemployment, according to which the wage is equal to the marginal product of labour.

He puts forth the idea that employees should resist reductions in money-wages, since they represent the price of labour utility and the income thereof, and unemployment is not generated by the rigidities on the labour market, due to the unions opposing any wage cuts.

Keynes' standpoint is that the causes of unemployment are to be found on the monetary and product markets, not on the labour market.

In their turn, classics only accept the existence of frictional unemployment and voluntary unemployment, whereas Keynes also brings into question involuntary unemployment, manifest in the situation when workers are willing to work even for lower wages than those paid on the market at a given moment, yet they fail to find work.

The period 1930-1950 can be characterized by profound changes of certain economic concepts or even whole fields (Beaud & Dostaler, [1996] 2000, p. 82–85), such as full employment becoming a priority objective of economic policies or the renewal of the national accounting system. The following support this statement:

- in 1944, the government published in Great Britain the ***Employment Whiter Paper***, whose objective was to maintain a high level of employment for a long, stable period of time (Beveridge, 1944, p. 22);
- in Canada, public authorities released in 1945 a ***White Paper on Full Employment,*** stating that one of the main political objectives was maintaining a high, stable level of employment, as well as providing a high level of income in order to ensure a significant increase of the living standards (United Nations, 1949, p. 9);
- at the same time, Australia also published a ***White Paper of Employment;***
- in mid 1940s, New Zealand even adopted a law regarding employment;
- in 1946, USA published the Employment Act, who's forward stipulated that public authorities had a mission to increase the level of employment, production and purchase power to maximum.

In the late 1950s and early 1960s, reserved opinions took shape, concerning the feasibility of full employment, stressing the particular difficulties of putting this objective into practice. Keynes himself had started doubting the practical application of full employment policies.

Joan Robinson also deemed unemployment to have its own functions as economic regulator and as tool for maintaining discipline as far as pay raises were concerned. She even put forth the idea that, if unemployment is eliminated, then other tools must be found to take over the positive functions of unemployment in a high-performance economy (Robinson, [1937] 1948, p. 10).

The measures taken in Western economies along Keynesian lines showed their positive effects for 25 years. Specialists have shown that, if the nominal wage is extremely flexible, both in its upward and in its downward move, as the Keynesian doctrine stipulates, then full employment leads to high inflation. Starting with the 1970s, Keynesianism has been vehemently criticized over the increasing inflation rate, brought about by long-term political interventionism.

Applying Keynesian theories into practice will have brought about the American economic recession of the 1970s, among others, since it relied on forceful stimulation of demand and on budget deficit in order to maintain a high level of employment.

Thus, Keynesian theory began to be replaced by ***the theory of supply*** and ***monetarism***, which put forth as means to stop recession: fiscal relaxation, maintaining strict control over the amount of currency in order to keep inflation under control, oil deregulations, telecommunications, air freight, banks or competition, privatization, etc.

Keynes's macroeconomic theory brought about a real revolution of economic thought. He rejected classical theory since he held it responsible for bankrupting the economic system adopted in the late 1920s. His doctrine stipulates that unemployment doesn't stem from the poor demanding higher wages but from the attitude of the rich, who preferred hoarding their savings to investing them.

Under these circumstances, the state must intervene in order to boost the economy when the balance between savings and investment is affected. The state's mission is to reinstate economic balance and provide for full employment.

But the classical and neoclassical models Keynes rejected are back in focus, revised and improved, and are now known as the current neoclassical theoretical system. The supporters of this system shift the

central focus back to the market and its mechanisms, under new economic, social and political conditions, taking the view that planning destroys the performing model of contemporary market economy.

3.2 On the Natural Rate of Unemployment (NRU)

Milton Friedman, a monetarist American economist, consolidated the theory of the natural rate of unemployment, starting from the analysis of the curve developed by Phillips and Lipsey in the '50s, introducing the term ***natural rate of unemployment*** or NRU.

This rate is defined either as *that level of voluntary unemployment which* ***cleanses*** *the labour market, resulting in a substantial rate of the real wages, given that several markets are in a state of equilibrium,* or as *the unemployment rate which preserves a constant average rate of real wages and ensures a constant level of prices, given that the increase in labour productivity is null* (Blaug, [1985] 1992, pp. 717–718).

The origins of NRU should be sought in the argument put forth by Friedman in 1968, namely that in the long run, the Phillips-cure is vertical (Friedman, 1968, pp. 1-17). In fact, this was Friedman's response to the statement according to which the Phillips-curve provides a means of ***negotiating*** between inflation and unemployment, the only issue being choosing the optimum combination of the two phenomena, socially speaking.

Milton Friedman considered that any combination thereof should only be short-termed, since unemployment can be lowered under its natural rate only given the circumstance that workers end up by recognizing the real level of inflation in the economy. If they underestimate the real level of inflation, then they will overestimate the real wages they are paid.

A consequence of this overestimation is that employees, who would rather not work for a lower real wage, will consider current employment unacceptable. But this state of facts can only last a short time. Consequently, in order to maintain the unemployment rate below the NRU, it is necessary that workers should continue to be *tricked* with high levels of inflation.

The outcome of this process is either an inflation spiral to infinitum, or bringing unemployment up to its natural level. In order to outline the actual importance of Friedman's theory, an analysis of the stages marking the evolution of the Phillips-curve is called for.

3.2.1 The Evolution of the Phillips Curve

Three distinct stages can be identified in the evolution of the Phillips curve (Frisch, [1983] 1997, p. 31):

1. The assumption made by **Phillips and Lipsey** regarding the existence of ***an inverse relationship between the rate of unemployment and the rate of inflation***;
2. The introduction of ***the natural rate of unemployment*** by **Friedman and Phelps**, who demonstrated that there are significant differences between the short-term and the long-term Phillips curves;
3. Criticism of the Phillips curve, according to which ***there is no systematic trade-off between inflation and unemployment.***

Built on a set of data from 1913–1957, by using the function of change of wages and unemployment applied for the period 1861–1913, the original Phillips curve can be characterized by the following properties:

- when the unemployment rate equals 5.5%, the level of wages is constant;
- wage inflation would rise with decreasing unemployment and fall with increasing unemployment (Figure 3.1).

Keynes appreciated there is an inverse relationship between the unemployment rate and the rate of change of wages (respectively of inflation). This means that, as the level of employment approaches full employment, the inflation pressure increases, and as unemployment rises, inflation decreases.

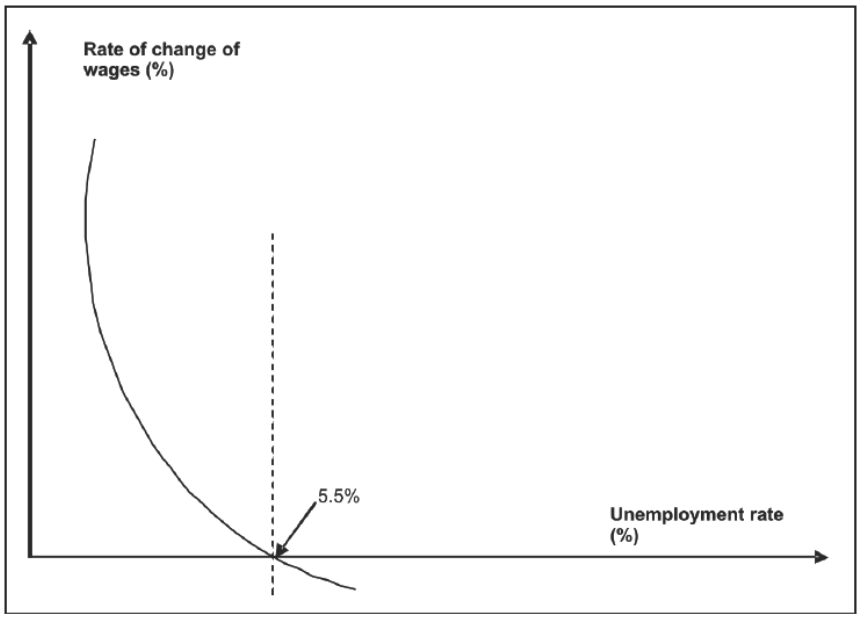

Figure 3.1 **The original Phillips curve**
Source: Frisch, [1983] 1997, p. 31

Phillips' view was that the rate of change of wages (r_s) depends both on the level of the excess demand for labour (u) and on its evolution in time (du/dt):

$$r_s = h\left(u, \frac{du}{dt}\right) \tag{1}$$

Based on this relationship, Phillips stipulated the following evolution of the rate of change of wages, at a certain level of the unemployment rate: when the unemployment rate decreases during periods of economic development, wages tend towards a higher level than that of the average wages; when the unemployment rate decreases during times of economic distress, wages tend to be below the average wage level.

R. G. Lipsey's contribution to the Phillips curve (Ibidem, pp. 35 – 39) comprises the use of unique labour model/system, taking into account nominal wages instead of real wages. Lipsey regarded labour demand and supply as linear functions in relation with nominal wages, and the labour market is in a state of equilibrium when the labour demand and the labour supply are equal, as in point E of the graphic from Figure 3.2, where:

NW = nominal wages;
L = labour;
ND = labour demand;
NS = labour supply;
NW_E = equilibrium nominal wages;
L_E = labour employed at the level of the equilibrium nominal wages.

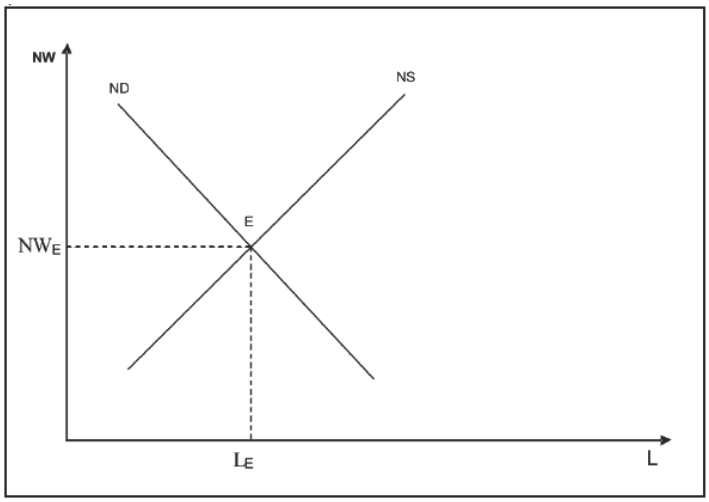

Figure 3.2 **Labour market equilibrium, function of the evolution of nominal wages**
Source: Frisch, [1983] 1997, pp. 35-39

A specific element is the fact that the point of equilibrium indicates the existence of the relation $NS = N + U$, where N represents the number of employed labour units, while U represents the number of unemployed. Therefore, even if there is no excess labour demand on the market, this situation doesn't show that unemployment is null.

The explanation rests on the fact that the number of people looking for employment equals the number of free or available jobs (vacancies). At the same time, Lipsey puts forth that $ND = N + V$, where V represents the number of vacancies, while the excess demand for labour (X_d) is given by the relation $X_d = V - U$. Therefore, when a country's economy registers an increase in profits to an expected level, where X_d equals the EF segment in the diagram below, at the level NW_0 of the nominal wages, when unemployment is given by the difference between L_0' and L_0 (Figure 3.3).

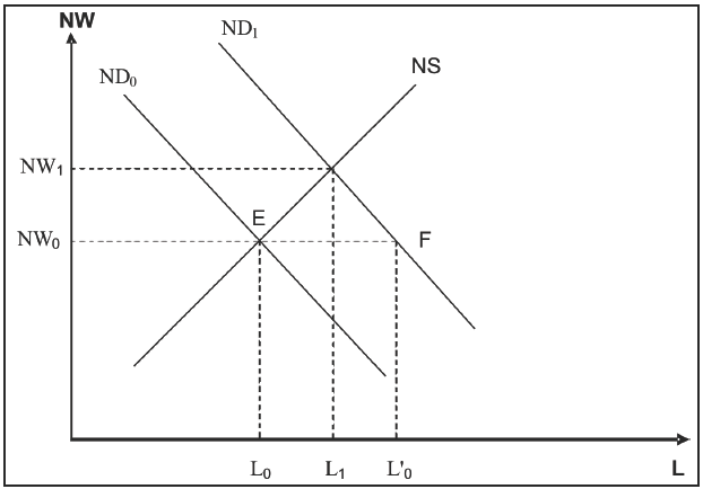

Figure 3.3 **The evolution of the demand for labour based on profit increase**
Source: Frisch, [1983] 1997, pp. 35-39

As the level of employment rises, the level of nominal wages will reach NW_1, which is one level higher than NW_0, recorded for the previous period, the difference between L_1 and L_0' representing the new level of unemployment, which is lower than initially.

In his theory, Lipsey pre-established a reverse relationship between X_d and the unemployment rate (r_u), as follows (Figure 3.4):

$$Y = \frac{ND - NS}{ND}, \text{ where } Y = X_d \qquad (2)$$

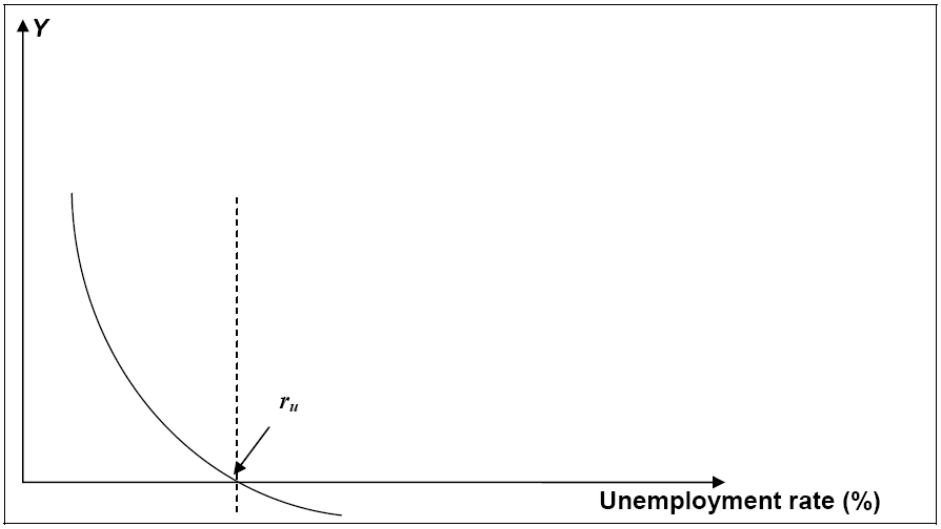

Figure 3.4 **Relation between the excess of demand and the unemployment rate**
Source: Frisch, [1983] 1997, pp. 35-39

Lipsey continued his argumentation by starting from the assumption that when $X_d = 0$, $U = V$, and the Y - U curve will cross the ox axis in the point where the unemployment rate is equal to the value of frictional unemployment (r_{fu}), which means that when X_d increases, the unemployment rate goes down, while when X_s (excess supply of labour) increases, the unemployment rate follows suite (Figure 3.5).

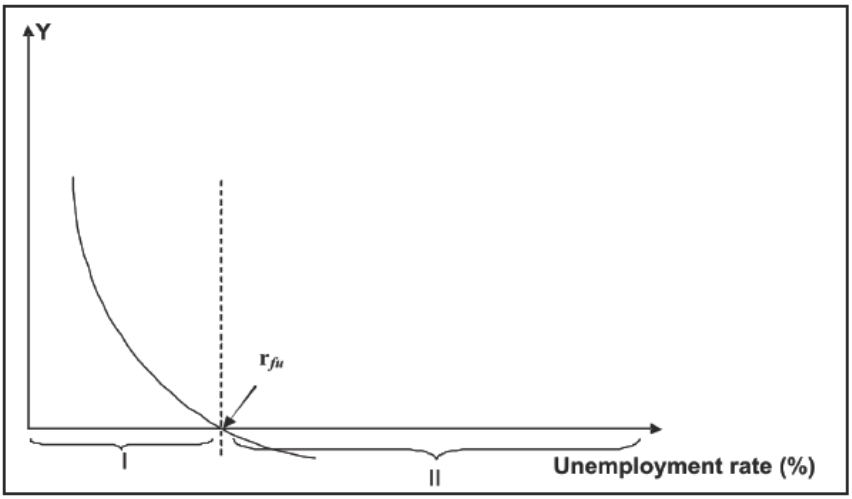

Figure 3.5 **Formation of the frictional unemployment rate**
Source: Frisch, [1983] 1997, pp. 35-39

In the first area of the graphic (Figure 3.5), X_d is other than 0, and the curve has an asymptotic evolution towards lower values of unemployment, yet never to $r_u = 0$, since unemployment can never be null, regardless of how high X_d may be. In the second area of the graphic, X_s is other than 0, and the curve has an almost rectilinear evolution.

Many economists have questioned the long-term stability of the Phillips curve, respectively the long-term unemployment and inflation trade-off (the preservation of the negative relation between the two phenomena). Thus, Friedman and Phelps, as opposed to Lipsey, take into account the influence that inflationary expectations have on the unemployment rate (Ibidem, pp. 41–52). They state that there is no stability for the Phillips curve in the long run, since the high values of the inflation rate give rise to even more pessimistic expectations regarding the evolution of inflation (namely even higher increases of inflation in the future).

This is the reason why the Phillips curve has an ascendant evolution, as shown in Figure 3.6, introducing thus what they called ***the expectations-augmented Phillips curve.***

At the same time, Friedman believed that it isn't the nominal but the real wages that should be taken into account, while at the point where unemployment is equal to its natural value or with frictional unemployment (5.5%), the real wages rate is null (real wages are in a state of equilibrium), therefore there is no inflation.

According to this, the rate of inflation is a function of the unemployment rate, to which the rate of expected inflation is added, meaning $r_i = f(r_u) + r_{ai}$, where r_i = rate of inflation, (r_u) = unemployment rate, and r_{ai} = rate of anticipated inflation.

Consequently, Friedman believed that employees and employers alike suffer from ***monetary illusion***, since:

- Employees believe that an increase in nominal wages is an increase in real wages;
- Employers believe that increasing prices means increasing the relative prices of their own products compare to the prices of other products.

Under these circumstances, it is estimated that, should the monetary mass increase thanks to an increase in aggregate demand, the volume of output will increase as well, which will bring about a rise in labour demand and nominal wages.

The outcome of this evolution is an increase in labour supply and less time needed to look for a job (a decrease of frictional unemployment).

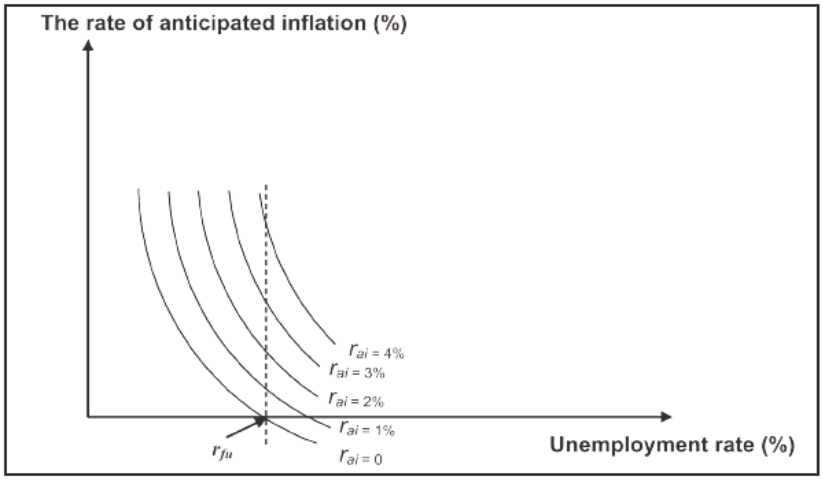

Figure 3.6 **The expectations-augmented Phillips curve**
Source: Frisch, [1983] 1997, pp. 41- 52

Yet in time, employees will find out that their expectations regarding the level of real wages have not been confirmed; therefore, they will quit their employment in search for another that satisfies their wage expectations or they will take longer time to search for adequate employment. Eventually, unemployment will rise again, given the increase in prices (anticipated inflation), which shows that there is in fact no inflation - unemployment trade-off.

Employers follow the same pattern when they realize that relative prices have not increased, by decreasing the volume of product supply and labour demand; thus the effect of increasing product demand on employment disappears. Thus, Friedman and Phelps introduced the natural rate of unemployment, which remains constant regardless of the level of inflation, provided its anticipated value is perfectly known. This new type of Phillips curve differs from the original one in several points (Dobrotă, 1997, pp. 458-461):

- ***The rate of inflation is expressed function of price variation*** instead of nominal wages variation;
- The contribution of Milton Friedman (creator of the model of employees' false expectations regarding wages in the late 1960s and early 1970s) to the new or current Phillips curve means the inclusion of ***the values of anticipated rates of inflation***, which give rise to classical unemployment, this being higher than natural unemployment;
- The current curve comprises an indicator referring to ***the various types of shock supplies*** (such as, for instance, the oil shocks of 1973 and of 1978 or as what the 2004 one might turn out to be), which bring about strong disturbances in the economies of all countries.

The new Phillips curve is deemed to have the following representation:

$$\pi_t = \pi_t^{'} - \beta \cdot (u_t^{'} - u^n) + \varepsilon , \qquad (3)$$

where π_t = rate of inflation at t moment, $\pi_t^{'}$ = anticipated rate of inflation at t moment, β = correction coefficient ($\beta > 0$), $u_t^{'}$ = classical unemployment rate at t moment, u^n natural rate of unemployment (NRU), while ε = shock supply coefficient.

But the current Phillips curve has the same nature as the aggregate supply curve, which has the following form:

$$p_t = p_t^{'} + \frac{1}{\alpha}(Y_t - Y_t^{'}) , \qquad (4)$$

where p_t = level of prices at t moment, $p_t^{'}$ = anticipated level of prices at t moment, α = correction coefficient ($\alpha > 0$), Y_t = volume of supply (achieved output) at t moment, $Y_t^{'}$ = volume of natural supply (output turned up at the level of employment where the unemployment rate is equal to the NRU).

If the price registered at moment $t - 1$ is deducted from the supply curve, the following relationship follows:

$$p_t - p_{t-1} = p_t^{'} - p_{t-1} + \frac{1}{\alpha}(Y_t - Y_t^{'}) , \qquad (5)$$

but, $p_t - p_{t-1} = \pi_t$, while $p_t^{'} - p_{t-1} = \pi_t^{'}$, which turns the relationship into:

$$\pi_t = \pi_t^{'} + \frac{1}{\alpha}(Y_t - Y_t^{'}) . \qquad (6)$$

If at this point we take into account Okun's law, which states the relationship between an economy's GDP gap and the actual unemployment rate, then the following equality relation can be used:

$$\frac{1}{\alpha}(Y_t - Y_t^{'}) = -\beta \cdot (u_t^{'} - u^n)\,. \qquad (7)$$

Replace this equality in the supply relationship and introduce the coefficient taking into account shock supply (ε), thus obtaining the previous relationship under the form of the current Phillips curve. Given that the natural rate of unemployment is of 4% (when wages and prices are stable), if one aims at decreasing unemployment under this value, then monetary and fiscal policies can be employed in order to expand aggregate demand, which triggers an increase in both wages and product prices.

Yet product prices rise faster than wages, which means that real wages decrease (Blaug, [1985] 1992, p. 719). The rise in prices will prompt employers to increase the volume of activity, as well as the number of workers, which triggers an effective increase in labour demand.

This means that the unemployment rate has effectively decreased, for instance to 2% (Figure 3.7), the curve shifting from point A to point B, where the rate of inflation equals 3%. Yet employees have also anticipated that their real wages will also increase by 3%, which fails to occur, since only nominal wages experienced this evolution.

Due to this, by leaving employment in order to find a better paid job that would satisfy the employees' expectations, they cause the curve to shift from B to C, which means that the unemployment rate returns to the initial value of 4%.

If at this point another attempt is made to lower the unemployment rate under 4% by increasing aggregate demand, the damage has already been done, since one starts from the rate of inflation attained after the previous attempt (3%), thus reaching a growth rate of 6% for nominal wages and prices with the renewal of the process detailed above.

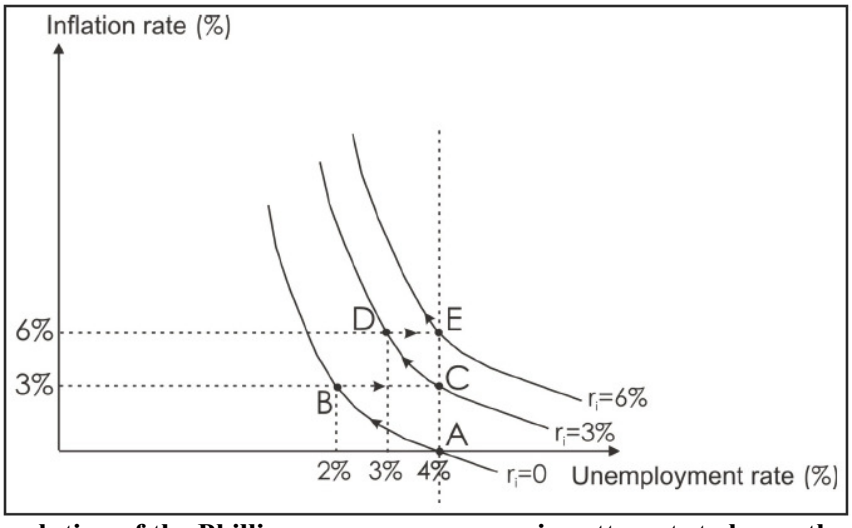

Figure 3.7 **The evolution of the Phillips curve upon successive attempts to lower the unemployment rate under the NRU**
Source: Blaug, [1985] 1992, p. 719

In conclusion, the long-run Phillips curve graphic has a vertical ascent, resulting from successive short-run shifts of the curve to the position where, given a certain level of unemployment (NRU), the anticipated rate of inflation is equal to its current rate,

3.2.2 The Implications of the Natural Rate of Unemployment

From a political standpoint, the attempts to maintain a high level of employment, by placing the unemployment rate below the NRU, represent the essence of government policies, relying on stimulating Keynesian aggregate demand.

According to them, by stimulating demand, the number of hiring ensures full employment, since it is believed that unemployment can be kept at a low level in time, without registering inflation (for instance, in the USA, between 1964 and 1972, the unemployment rate was kept at 5.5%, given high-pace economic activity).

But, according to Friedman's theory, unemployment cannot be decreased without giving rise to inflation, given that increasing the number of hiring is disadvantageous if the rate of inflation is zero. Consequently, returning to zero inflation can be achieved by increasing unemployment, but not in the long run. The efforts of government policies should therefore be channelled towards microeconomics, by correcting the shortcomings of the labour market in order to lower unemployment.

In 1976, Milton Friedman received the Nobel Prize for economics and took the opportunity to state that stagflation (the specific economic situation when unemployment and inflation grow at the same rate) paves the road to slumpflation, a situation when the rates of unemployment and inflation increase rapidly, so that the current Phillips curve graphic would have a positive ascent.

This evolution is maintained until full indexation of wages is achieved, function of the price level. Friedman estimated that the process of full indexation can take up to several decades, and at the end of this period the Phillips curve will once again become vertical.

An issue worth mentioning is the fact that in ***shaping their expectations***, employers and employees have asymmetric reactions to extending aggregate demand, which is an essential aspect of Friedman's theory (Ibidem, pp. 719–722).

The vertical Phillips curve, as outlined in Figure 3.7, is in fact a *wide band*, encompassing *the employees' reactions*, affected by the monetary illusion when they believe that their real wages will increase (it would be only later that they realize that their real wages has decreased, even if nominal wages are higher), as well as *employers' reactions*, who receive earlier than their employees the news regarding the rising prices of the products they manufacture.

The conclusion to draw in this situation is that any policy regarding the increase of aggregate demand has predictable effects and can therefore be included in the forecasts of private entrepreneurs.

The issue is that when these policies are put into practice, they have no influence over real variables, since these have already been forecast and appear as nominal adjustments in relation with wages and prices. Rational expectations can therefore be abandoned, resulting in the most drastic anti-Keynesian idea, according to which authorities can influence nominal variables (such as the rate of inflation) but cannot influence real variables (such as the level of income and unemployment).

Thus we can notice that monetary policy can influence the evolution of the rate of unemployment over a very short term only. Monetarists put forth that the natural rate of unemployment can be calculated using the following formula (Abraham–Frois, 1999, p. 434):

$$u^n = (u^f + u^s)\frac{100}{N_0}[\%], \qquad (8)$$

Where u^n = the natural rate of unemployment, u^f = frictional unemployment (can be lowered by facilitating access to information on the labour market), u^s = structural unemployment (can be lowered by increasing the mobility of the work force and by improving its level of education), and N_0 = the labour supply of households (the population able to work).

Friedman and Phelps estimate that the existence of natural unemployment isn't and cannot be affected by monetary and financial policies, since it emerges independently of them (Preda, 2002, p. 80). The factors influencing the size of the NRU are (Beaud & Dostaler, [1996] 2000, p. 161–165): the structure of the economy; the preferences of economic operators regarding their activity per sector; the relations between the insurance system and unemployment; the influence of unions; the institutional structure and its functioning; the characteristics of the labour market; the imperfect operation of markets, etc.

We can therefore state that economic operators adapt themselves to the changes in the economic in the long run, while the economy becomes stable on its own at the natural rate of unemployment. **A. A. Alchian**, the theoretical supporter of the New Microeconomics, (a mixture of Leon Walras's ***General equilibrium theory*** and the ***Theory of imperfect markets***), introduces two new theories regarding market information (Frisch, [1983] 1997, pp. 52-54).

According to the first theory, the faster information is obtained and spread, the more expensive it is. According to the second theory, getting informed is an efficient activity, so there would always be ***individuals specialized in producing and using information*** (Alchian & Allen, 1964). Both sellers and buyers will therefore select the best price following research. If information is imperfect, then the longer the search time, the higher the maximum anticipated price. If information is perfect, than the variation of the anticipated price is lower, even if the search time increases, as shown in Figure 3.8.

Alchian's approach is a ***theory of job search***, which helps interpreting certain phenomena such as price rigidity and frictional or job search unemployment. Alchian claims that prices are rigid because sellers stock up, while buyers keep waiting. Consequently, the stable price is higher, but this is insignificant because search has been avoided, which is expensive for both parties. As far as frictional unemployment is concerned, Alchian believed it existed since, in certain circumstances, ***searching and finding acceptable employment*** cost an employed individual more.

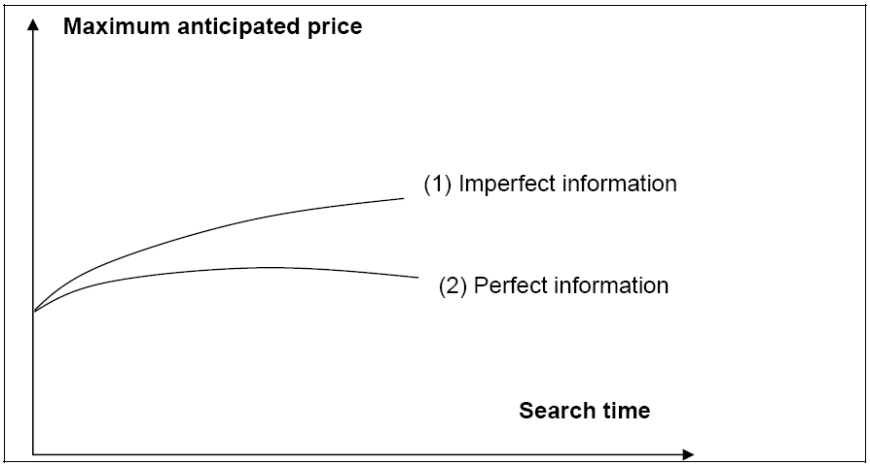

Figure 3.8 **The evolution of the maximum anticipated price function of the type of information**
Source: Frisch, [1983] 1997, pp. 52-54

In order to decrease expenses generated by producing and investing in information, the respective people will choose temporary unemployment in order to look for new employment.

Natural or voluntary unemployment is therefore a balancing one, which can be classified into the following categories, based on its causes (Ibidem, pp. 55–56):

1. ***Search unemployment*** (Alchian, Holt and Mortenson) is *self-employment of workers*, whereby they turn down employment and would rather remain unemployed even if they could get hired for certain wages, in the hope of finding a better-paid job;
2. ***Wait unemployment*** (Phelps) is characterized by the fact that workers prefer leisure to employment at the prevailing wage rate, and can be further subdivided into ***speculative unemployment*** (the marginal utility of leisure is valued higher than the utility of the prevailing real wages) and ***precautionary unemployment*** (characteristic for individuals who wait for the next employment at the same level of wages, such as for instance lawyers, actors, etc.)
3. ***Queue unemployment*** (Phelps) appears when either labour demand is lower than the supply, or when the individual in search for employment are aware of the fact that they would not find employment even when willing to work for less than the prevailing or the previous wages (the case of Keynesian voluntary unemployment).

Friedman's monetarists argue that there are three types of unemployment in an economy (Preda, 2002, p. 79):

1. ***Frictional unemployment***, which equally appears when the economy is in a state of equilibrium or not, since it results from the time workers take to find acceptable/suitable employment or the time employers take to find a suitable worker for the respective job description.
2. ***Circumstantial unemployment***, which appears in times of economic recession, either due to excess supply or to insufficient economic activities in need of labour.
3. ***Structural unemployment***, which results from the lack of structural correlation between labour demand and supply.

3.2.3 Reactions to the Effective Functioning and Application of NRU

The claims to symmetry regarding the NRU (a decreasing rate of inflation brings about increasing unemployment and vice versa) were tested by **Robert Eisner** (*A New View of the NAIRU*, 1995), by using quarterly statistical date in the Phillips standard regression curve, where inflation at a given time (*n*) is a function of the following variables (Baker, 2000, p. 378):

- the inflation in the previous period;
- the current and the previous rate of unemployment;
- the inflation brought about by increasing prices for food and energy;
- deviations from a productivity growth trend;
- variables generated by the impact of control over prices and wages in the early '70s, which can be deemed *dummy variables* and can't be introduced directly into the model but must be taken as a data block.

$$i_n = A + \sum_i K_i i_{n-1} + \sum_j K_j u_{n-j} + K_s ihe_{n-1} + K_l iw_n + K_a cp_n + K_b cp_n^{'} + K_e \text{, where:} \qquad (9)$$

- i_n = rate of inflation at *n* moment;
- A = constant;
- $\sum_i K_i i_{n-1}$ = sum of coefficients of previous rates of inflation ($i = 12 \div 20$);
- $\sum_j K_j u_{n-j}$ = sum of coefficients of current and previous rates of unemployment during the last four quarters;
- $K_s ihe_{n-1}$ = inflation rate rise lag coefficient, for the difference recorded during the previous quarter between the inflation generated by increasing prices for food and energy and the rate generated by the increasing product prices;
- $K_l iw_n$ = productivity rise lag coefficient, for the difference between currently increasing productivity and the estimated trend for the future rise in productivity;

- $K_a cp_n$ = dummy variable coefficient, generated for the early 1970s by the control exercised over prices and wages;
- $K_b cp_n'$ = variable coefficient associated with the period immediately following the removal of the control over prices and wages in 1974;
- K_e = error coefficient.

This was the model employed by the American Congress budget committee for estimating the NRU in 1994, being similar to other standard formulations. Using different models for measuring inflation and unemployment rate, as well as different lag structures, Eisner discovered that the NRU relation between inflation and unemployment was rather strong at the times when the economy operated with unemployment rates above natural unemployment. Moreover, he found that expectations related the unemployment - inflation relation weren't fulfilled during those periods when the unemployment rate was higher than the natural rate of unemployment.

In any case, during these periods there was no record of clear proof that inflation would necessarily accelerate. This demonstrates that there are but a few inferences according to which lower unemployment rates would lead to hyperinflation in the economy. Moreover, the concept of the NRU is valid without exception when the economy operates with an unemployment rate higher than the natural one, so the symmetry regarding this concept doesn't apply.

A detailed analysis of the practical efficiency of applying the NRU shows that the economic performance of OECD countries almost constantly deteriorated during the periods 1950–1960 and 1980–1990. GDP growth rate has slowed down significantly, falling in many cases below half the anticipated level. This slow-down hit the least influential segments of society and coincided with a significant rise of the unemployment rate and the precariousness of employment. The evolution of the unemployment rate in various OECD countries between 1951 and 1995 is outlined in Table 3.1.

It can be inferred that in many of the OECD countries, the unemployment rate sky-rocketed from under 5% between 1951 and 1959, and even zero in certain countries, to over 10%, sometimes nearly 20% during the period 1990 – 1995, a situation which has only grown worse nowadays. These colossal rates of unemployment have burdened public budgets for social security and have triggered rising taxation.

Table 3.1 **Unemployment rate in OECD countries between 1951 and 1995 (%)**

No.	Affected country	1951 - 1959	1960 - 1969	1970 - 1979	1980 - 1989	1990 - 1995
1.	USA	4.3	4.6	6.1	7.2	6.4
2.	Canada	**3.9**	**4.7**	**6.6**	**9.3**	**10.1**
3.	Australia	**1.1**	**2.1**	**3.8**	**7.5**	**9.4**
4.	New Zealand	**0.0**	**0.2**	**0.6**	**4.4**	**8.7**
5.	Japan	2.2	1.3	1.7	2.5	2.5
6.	Great Britain	2.1	2.7	4.4	9.9	9.1
7.	Austria	3.6	1.6	1.3	3.2	5.5
8.	France	**1.8**	**1.7**	**3.8**	**9.0**	**10.7**
9.	Germany	4.6	0.7	2.3	6.0	6.3
10.	Spain	**2.2**	**2.4**	**4.3**	**17.7**	**19.8**

Source: CEP – OECD, standardized rates of unemployment in 1950–1995

If we are to take into account the values of the unemployment rate between 1996 and 2010 (Table 3.2) in the same countries analysed by the author (Baker, 2000), we will notice that the overall growing

trend of the indicator has continued. A few noteworthy examples are the case of Spain, which, starting with 1980 and up to late 2000 recorded an unemployment rate higher than 15%, and this has remained constantly over 10% ever since 2001; the case of France, where the unemployment rate in 2010 had increased fourfold as opposed to 1951; and the case of Austria, where the unemployment rate continued at around 4% between 1951 and 2010.

Table 3.2. ***The unemployment rate in OECD countries between 1996 and 2010***

- % -

No.	Affected country	1996 - 2000	2001 - 2005	2006 - 2010
1.	USA	4.6	5.4	6.8
2.	Canada	**8.3**	**7.3**	**5.7**
3.	Australia	**8.2**	**5.9**	**4.8**
4.	New Zealand	**6.8**	**4.7**	**4.9**
5.	Japan	4.0	5.0	4.4
6.	Great Britain	6.6	5.0	6.7
7.	Austria	3.9	4.4	4.4
8.	France	**....**	**8.8**	**8.5**
9.	Germany	8.8	9.4	8.2
10.	Spain	**18.2**	**10.8**	**13.2**

Source: Labour Force Statistics (MEI): Survey based unemployment rates and levels, http://stats.oecd.org/Index.aspx

In order to establish up to what extent the phenomenon of rising unemployment is due to qualitative changes on the labour markets in OECD countries, we can use the analysis of existing NRU (*the inflation rate of unemployment* or *natural rate of unemployment)*. The existence of a high and rising NRU is important in assessing the impact of globalization, since it is believed that the recent escalation of unemployment is primarily due to the domestic conditions of the labour markets in every country and, to a lesser extent, to the macroeconomic policies implemented before the spread of globalization.

If the NRU upturn is responsible for the high rates of unemployment in OECD countries, then globalization could have had only an indirect and less important effect through the impact this process has made on national labour markets.

If reality doesn't involve the NRU around the current levels of unemployment, this doesn't imply that the limits of globalization, imposed on macroeconomic policies, are responsible for high unemployment. Yet this option should remain open.

The basic significance of the NRU is directly promoted. On the one hand, if an economy operates on unemployment rates below the NRU, then inflation will rise as long as there is a difference between the two rates, and the level of employment will remain high. On the other hand, the only choices a country in this situation can make are to increase unemployment over the NRU level or to resign itself to hyperinflation and the collapse of monetary economy. Subsequently, such a choice demands that macroeconomic policies be used in order to maintain a rate of unemployment higher than the NRU over a long period of time (Ibidem, p. 370).

The only way to reduce inflation and, consequently, improve the level on employment, is through radical restructuring of the labour market. Conservatives estimate that this restructuring entails cutting down on the public expense and benefits for the unemployed. Liberals give priority to education, professional training and various types of subsidiary income for hiring unemployed workers. Yet supporters of both views agree that the issue is not a fundamentally macroeconomic one.

The original Phillips curve stipulates that changes in the rate of inflation are structurally dependent on the unemployment rate. It was then proved that high unemployment is associated with decreasing rates of inflation, while low unemployment is associated with increasing inflation. Following Robert Eisner's study on the negative relationship between unemployment and inflation in American economy, it was found that models are not followed in times when the economy is above or below the measures accepted by the NRU.

Eisner showed that the reverse ratio relationship between inflation and unemployment worked during periods when the American economy would operate on higher rates of unemployment than the NRU. This demonstrates that high unemployment results in maintaining inflation at a low level, but it doesn't follow that low unemployment leads to a growth in inflation.

In all OECD countries, the state of unemployment has increased during the past 50 years, with a marked upward trend during the past 25 years. The standard explanation for this evolution centres on the changes occurring on the labour market, the most important of which is the increasing availability of support income for the unemployed. Yet none of the neoliberal theories proposed so far has come up with a feasible solution for mitigating the extremely unfavourable evolution of employment levels in the world.

3.3 The Human Capital Theory and Employment

In the late 1950s, the ***Human Capital Theory*** began to take shape, promoted by **J. Mincer** (1958), **T. W. Schultz** (1960) and **G. S. Becker** (1964). This theory stemmed from the idea that education is an investigation, whereby resources are consumed and which results in increased productivity and market value of labour and workers' skills.

Therefore, the development of education was given a prominent role in economic growth (Allingham & Burstein, 1976, pp. 35–36). The saying *information is power* turned thus into *only rare information is power*. In the period immediately following WWII, an excess demand for training was manifest, due to the technological and scientific break-through brought about by war. Initially, this demand was covered by using public money.

In the early 1950s, the number of people attending higher education in the USA doubled in comparison with the period before the war. Between 1950 and 1960, their numbers grew by 20%, while between 1960 and 1970 it registered a 100% growth, while expenses on education tripled.

Negative reactions soon appeared following this evolution, since it was deemed that the role of training had been overestimated when income break-down per level of education is used in assessing the economic effects of schooling processes. The conclusion to be drawn is that this phenomenon is brought about by a false correlation between schooling, skills and other variables. It was generally estimated that schooling represents in fact a reward for the individual, while society's gains would be much fewer, maybe even none, since the majority of gains are in fact transferred from one group to another.

Gary S. Becker estimated that the level of employment was in direct ration with the level of specialization or qualification of the labour force (Becker, [1964] 1997, p. 21). It is well-known that young graduates are not sufficiently trained for a high-performance economic activity when they graduate. Their actual training takes place on-the-job, so that individuals stand more chances of finding a job upon graduation if, throughout their education, they benefit from training in various organizations (business enterprises, public institutions or even non-governmental organizations). In fact, frictional unemployment is much lower in the case of qualified individuals than in the case of unqualified workers.

During the past few decades, the level of individual incomes has constantly increased in developed countries, thanks to the growing volume of information, science and technology, with direct effect on the productivity of the means of production. This evolution has led to an increasing value of education, more specifically technical education and on-the-job training. In those fields where technological progress registers a fast pace, the number of employees with a high level of training absorbed in the production process is much higher than in the fields where the output of research activities is slower to spread.

The rate of unemployment is in reverse ratio with the level of training of the labour force. The longer the period of professional training, the lower the rate of unemployment for these categories of individuals will be. Many employees improve their skills and acquire new ones through a constant, on-the-job training process. However, investments in human capital evince a higher degree of risk than in other areas, due to the unpredictable character of individuals.

This is a reason why many employers are still reluctant to put in expenses with the training programs of their own employees, without taking into account the possibility of training for individuals engaged in the educational system at various levels.

In order to analyse the impact of investment in employee training programs within a company, Becker developed a model (Ibidem, pp. 33–35), which relies on the assumption that an economic actor that wants to maximize profit is in a state of equilibrium if in keeping with the following equality:

$$MP_t = W_t \qquad (1),$$

Where MP_t = marginal product or receipts (income) during period t, while W_t = wages or expenditures during the respective period of time.

Investment in training programs might raise current expenditure and lower current receipts. Thus equilibrium conditions are fulfilled by equality between the present values of receipts and expenditures in the successive periods in which these programs are developed, as follows:

$$\sum_{h=1}^{D} \frac{V_h}{(1+a)^h} = \sum_{h=1}^{D} \frac{C_h}{(1+a)^h} \qquad (2),$$

Where:

- V_h = incomes during period (year) h;
- C_h = costs or expenditures during period (year) h;
- $(1 + a)^{-h}$ = discount factor;
- a = annual discount rate, which include the risk rate for the return on investment in training programs;
- D = the period (number of years) in which training programs are developed and receipts are cashed in based on the increased level of employee qualification.

If equilibrium is analysed only when initial training is given, then equation (2) becomes:

$$MP_0 + \sum_{h=1}^{D} \frac{MP_h}{(1+a)^h} = S_0 + C_i + \sum_{h=1}^{D} \frac{S_h}{(1+a)^h} \qquad (3),$$

Where:

- C_i = measures the outlay or the cost of initial training;
- D = the period (number of years) for which the equilibrium assessment is made;
- S_h = salaries paid for the annual marginal products, if the initial training is given;
- MP_h = marginal products for period t;
- MP_0 = marginal products at the beginning of the initial training period;
- S_0 = salaries paid for the MP_0 level of marginal products.

If in equation (3) we define G as the excess of future receipts over future outlays, expressed as:

$$R = \sum_{h=1}^{D} \frac{MP_h - S_h}{(1+a)^h} \quad (4)$$

Then equation (3) becomes:

$$MP_0 + R = S_0 + C_i \quad (5)$$

In equation (5) C_i measures only the outlay on initial training. In order for the assessment to be as realistic as possible, the equation needs to take into account marginal product losses, brought about by the time spent by employees in training, so that equation (5) becomes:

$$MP_0^{'} + R = S_0 + C_i^{'} \quad (6)$$

$$\text{where } C_i^{'} = C_i + C_0 \quad (7)$$

Where C_0 = opportunity cost of the time spent in training, calculated as the difference between what could have been produced MP_0', and what is produced, MP_0 while MP_0' = marginal products made taking into account marginal product losses.

If we define:

$$P^{'} = R - C_i^{'} \quad (8),$$

One obtains the profit increment made after following the training program and incurring expenses for the respective program.

The higher the profit increment made by employers by increasing their employees' level of qualification, the higher their willingness to invest in human capital and to develop their activity; the level of employment could therefore improve, while unemployment might decrease. Economic development has triggered and accelerated the decrease in working hours. At the same time, the time spent in education has increased, which has brought about a delayed entrance on the labour market (Becker, [1976] 1998, p. 95). According to expert opinions, the educational process comprises students' time as main component; were this more effectively used, it would allow them to participate more efficiently in production and integrate faster on the labour market.

The concept of ***educational costs*** has been more and more used lately, defined as the earnings given up when time is employed in the pursuit of education instead of developing an economic activity. Yet we shouldn't leave aside the fact that a high level of education of the labour force brings about positive changes in the society as a whole. Such advantages can be appraised either by the rising productivity of working hours following the improved quality of human capital and the support of technological progress, or by the decreasing numbers of the unemployed, due to the involvement of labour in education programs.

Moreover, notice should be made of the fact that companies develop their activity and hire an increasing number of employees, as long as the marginal productivity of labour is higher than recurring wages (Frank & Bernanke, 2001, pp. 325–330). But the marginal productivity of labour is a direct ratio of the human capital stock of workers. This stock is made up of the following elements: education; experience; the time spent in training; intelligence; labour habits; initiative; trustworthiness (trust, liability, loyalty), etc.

At the same time, certain activities are better paid than others, since the capital stock needed is larger. These are the reasons why a decision to invest, as individual, in the development of human capital can also be regarded as any other investment in other areas of activity.

The reason behind this view is the fact that present expenses on education should be compared, in this case as well, to the anticipated future benefits, to be obtained once new knowledge is put to use in practice. Therefore, the variations of labour demand in various fields stem, among others, from the difference in value of the types of human capital in existence on the market at a given moment and from the likelihood of their changing in time.

A significant point of concern for economists in developed countries is population ageing. This phenomenon has a negative effect on labour resources, by permanently increasing the pressure put by ageing individuals on the working population, as well as in terms of covering the labour demand on the part of companies. Given the rise of unemployment in the world, it goes without say that the issue of birth rate has become even more difficult, the more so since the costs involved in raising and educating children in the present-day society have constantly been on the increase. For this very reason, many researches look into the interdependence between quantity and quality, respectively the number of children and the costs of educating them, function of the ***quality of children.***

Becker undertook a type of analysis that introduces the concept of ***the shadow price of children*** or their marginal costs compared to their number (Becker, [1976] 1998, p. 203). The higher ***the quality of children*** and their number, the higher this price is. Becker introduces the function of utility for children, with the following form:

$$U = U(n, q, y) \quad (9),$$

Where n = the number of children, q = their quality and y = the rate of consumption of all other commodities. Taking I as the full income of families, p_{nq} is the price of the number of children multiplied by their quality level ($n \cdot q$) and py is the price of other commodities, we can write the following first-order conditions for maximizing the utility function subject to the budget restraint:

$$MU_n = \lambda \cdot q \cdot p_c = \lambda \cdot p_{un}, \text{ where } p_n = q \cdot p_c \quad (10),$$

$$MU_q = \lambda \cdot n \cdot p_c = \lambda \cdot p_{uq}, \text{ with } p_{uq} = n \cdot p_c \quad (11),$$

$$MU_y = \lambda \cdot p_y, \text{ or } MU_y = \lambda \cdot p_{uy} \quad (12),$$

Where:

- λ = the marginal utility of money income;
- p_n = the shadow price of children with respect to number, which is positively related to q, the level of quality;
- p_q = the shadow price of children with respect to quality, which is positively related to n, the number of children;
- p_{uy} = the shadow price of other commodities;
- MU_n = the marginal utility of children with respect to number;
- MU_q = the marginal utility of children with respect to quality;
- MU_y = the marginal utility of other commodities.

From an economic standpoint, there are implications of this model, which should be taken into account both at family and national economy levels when it comes to increasing the quality of specialized supply of labour. The efforts needed to school children result in final positive effects regarding the improved level of employment and decreasing unemployment in various areas of economic and social life.

3.4 Ludwig von Mises about Labour Force, Employment and Unemployment

There are always stocks of unused commodities, unemployed workers and unused productions facilities in changing economies, but economic systems shift towards that state where the amounts of unemployed workers and unused active elements are kept to a minimum (Mises, [1949] 1996, pp. 578–580). Mises estimates that the main issue is that this state cannot be attained since the necessary conditions can't be fully met due to past incorrect expectations of investors.

The excessive growth of capital and unemployment are speculative for the following reasons:

1. ***Stock owners*** refuse to sell, in the hope of getting a better price;
2. ***The unemployed*** (or the unemployed labour force) refuse to change residence and/or occupation or to settle for lower wages, in the hope that they would find better-paid employment in their city of residence, in their area of expertise.

Both categories hesitate to adjust their wishes to the prevailing situation on the market, waiting for the opportune moment when all market conditions provide the most of advantages. These hesitations make up one of the causes behind the lack of adaptation of the economic system itself to the actual conditions on the market at a given time. Consequently, the supporters of debt abatement argue that what it is in fact targeted is an increase in the amount of currency.

Economic operators will therefore work at maximum capacity, stocks will be sold for prices that their owners deem satisfactory, while the unemployed will accept employment for wages they deem acceptable. This policy, while very popular, ultimately leads to the rise of all prices, which triggers inflation, a phenomenon with a negative impact on economic development.

Mises introduces the concepts of ***extroversive*** *and* ***introversive labour***.). He believes a man may overcome the disutility of labour (forego the enjoyment of leisure) for various reasons, such as:

- He may work in order to make his mind and body strong, vigorous, and agile (examples are genuine sport, practised without any design for reward and social success; the search for truth and knowledge pursued for its own sake and as a means of improving one's own skills and performance);
- He may submit to the disutility of labour in order to serve God, sacrificing leisure to please God and to be rewarded in the beyond;
- He may toil in order to avoid greater mischief or in order to escape from depressing thoughts and to banish annoying moods; work for him is, as it were, a perfected refinement of play;
- He may work because he prefers the proceeds he can earn by working to the disutility of labour and the pleasures of leisure.

Mises estimates that the first three categories can be associated with introversive labour. Seen from the point of view of economics introversive labour is to be qualified as consumption. Its performance as a rule requires the expenditure of the produce of other peoples' extroversive labour, which can be associated, in its turn, with supply. Yet people do not submit to the disutility of labour for the sake of the joy which accompanies the labour. They submit to this either because they receive some reward or are appeciated for their skills and qualities, or because they have the feeling they have successfully overcome all the toil involved, or because certain activities satisfy some particular wishes. Thus joy and fatigue are psychological phenomena that influence both the subjective evaluation of disutility and rewards for the work performed, as well as the prevailing wages on the market paid for the respective work.

The choice of individuals regarding the amount of hours they are willing to work depends on the size of the wages. Remuneration for an hour of labour is compared to the cost of an hour of leisure, so if an individual takes an hour break, he forgoes the income that an hour of work would bring him. People forego leisure only if the hourly wage is higher than the cost of that hour's leisure; therefore, higher hourly wages would determine a rise of the motivation for work (Raynauld, Stringer & Weber, 1989, pp. 228–229). If, for instance, hourly wages rose from 10 to 15 monetary units (m. u.), the employee reasons that every hour of leisure cause him a loss of 15 m.u., which will prompt him to work more (or to substitute work for leisure).

The effect of this substitution is apparent in a higher standard of living on the one hand on the other hand, a rise of hourly wages allows the employee to lead a better life, even if they don't work more, so, in time, he would revert to his previous working hours.

In his theory, Mises introduces *catallactic unemployment*, which is in fact a part of natural unemployment, since it refers to that category of individuals who do not wish or are unable to find employment and prefer to remain outside the labour market. The author includes here homeless people, individuals who are psychologically unable to integrate in the system and those disheartened by long-term unemployment, who retire from the labour market (Mises, [1949] 1996, pp. 598–599). Mises states that *if a job-seeker cannot obtain the position he prefers, he must look for another kind of job.* If he cannot find an employer ready to pay him as much as he would like to earn, *he must abate his pretensions*. If he refuses to do so, he will not get any job, he will remain unemployed. What causes unemployment, in his view, is the fact that those eager to earn wages can (and do wait) until they find something suitable or at least acceptable.

A job-seeker who does not want to wait will always get a job in the unhampered market economy. In such an economy there is always unused capacity of natural resources and very often also unused capacity of produced factors of production. Therefore, it is only necessary for him either to reduce the amount of pay he is asking for to alter his occupation or his place of work. This is possible since there always were, and still are, people who work only for some time and then live for another period from the savings they have accumulated by working.

In countries in which the cultural state of the masses is low, it is often difficult to recruit workers who are ready to stay on the job for a long time. The average man acts out of pure inertia, and he knows of no other use for his earnings than *to buy some leisure time.* In other words, these individuals work only in order to remain unemployed for some time. Mises estimates that it is different in more civilized countries, since here workers look upon unemployment as an evil. They choose between employment and unemployment in the same way in which they proceed in all other actions and choices, weighing the pros and cons. If they choose unemployment, this unemployment is a market phenomenon whose nature is not different from other market phenomena as they appear in a changing market economy.

The various ***different considerations*** which may ***induce a man to decide for unemployment*** can be classified in this way:

- The individual ***believes that he will find at a later date a remunerative job in his dwelling place and in an occupation which he likes better and for which he has been trained.*** He seeks to avoid the expenditure and other disadvantages involved in shifting from one occupation to another and from one geographical location to another. Thus, a worker who owns real estate is more firmly linked with the place of his residence than people living in rented apartments, or a married individual is less mobile than an unmarried one. Then there are occupations which impair the worker's ability to resume his previous job at a later date. A watchmaker who works for some time as a carpenter may lose the dexterity required for his previous job. In all these cases the individual chooses temporary unemployment because he believes that this choice pays better in the long run.
- There are occupations the demand for which is ***subject to considerable seasonal variations.*** In some months of the year the demand is very intense in other months it dwindles or disappears altogether. But the structure of wage rates discounts these seasonal fluctuations. Many of the workers in such fields, having saved part of their ample earnings in the good season, thus remain unemployed in the bad season.
- There are also situations in which the individual chooses temporary unemployment for non-economic considerations, since he does not take jobs which are incompatible with his religious, moral, and political convictions. He shuns occupations the exercise of which would impair his social prestige.

Mises believes that unemployment in the unhampered market is always voluntary. In the eyes of the unemployed man, *unemployment is the minor of two evils between* which he has to choose. In its turn, the structure of the market may sometimes cause wage rates to drop. But, on the unhampered market, there is always for each type of labour a rate at which all those eager to work can get a job.

The final wage rate is that rate at which all job-seekers get jobs and all employers as many workers as they want to hire. Wage rate fluctuations are the device by means of which the sovereignty of the consumers manifests itself on the labour market. They are the measure adopted for the allocation of labour to the various branches of production. They ***penalize disobedience*** by cutting wage rates in the comparatively overmanned branches and ***reward obedience*** by raising wage rates in the comparatively undermanned branches.

It is obvious that they indirectly limit the individual's freedom to choose his occupation. Rut this coercion is not rigid, since it leaves to the individual a margin in the limits of which he can choose between what suits him better (and what less). This amount of coercion is the minimum of coercion that is indispensable for the preservation of the system of social cooperation. Mises holds the view that there is only one alternative left to the ***catallactic pressure*** exercised by the wages system. This would be the assignment of occupations and jobs to each individual by the peremptory decrees of an authority, a central board planning all production activities. This is tantamount to the suppression of all freedom.

Mises states that the individual is not free to choose permanent unemployment under the wages system either but no other imaginable social system could grant him a right to unlimited leisure. At the same time, he believes that ***it is not expedient to call catallactic unemployment in a metaphor borrowed from mechanics "frictional" unemployment.*** In the imaginary construction of the evenly rotating economy there is no unemployment because we have based this construction on such an assumption. Unemployment is a phenomenon of a changing economy. The fact that a worker is discharged on account of changes occurring in the arrangement of production processes does not instantly mean he will take advantage of every opportunity to get another job, on the contrary.

It is not an automatic reaction to the changes which have occurred, independent of the will and the choices of the job-seekers concerned, but the effect of their intentional actions. This wait is speculative, not frictional. Moreover, catallactic unemployment must not be confused with institutional unemployment, which is not the outcome of the decisions of the individual job-seekers. It is the effect of interference with the market phenomena intent upon enforcing by coercion and compulsion wage rates higher than those the unhampered market would have determined.

The treatment of institutional unemployment belongs to the analysis of the problems of ***interventionism***. Real wage rates can rise only if the productivity of labour increases. If the government or the unions succeed in enforcing wage rates which are higher than those the unhampered labour market would have determined, the supply of labour exceeds the demand for labour and institutional unemployment emerges (Ibidem, pp. 775–776). Firmly committed to the principles of interventionism, governments try to check this undesired result of their interference by resorting to those measures which arc nowadays called full-employment policy: unemployment doles, arbitration of labour disputes: public works by means of lavish public spending, inflation, and credit expansion, etc.

Mises believes that ***assistance granted to the unemployed does not dispose of unemployment on the contrary it makes it easier for the unemployed to remain idle.*** The financial implications of unemployment benefits are therefore disastrous. The unemployed should receive social welfare but the nearer the allowance comes to the height at which the unhampered market would have fixed the wage rate, the less incentive it offers to the beneficiary to look for a new job. On the one hand they cannot be deprived of support. On the other hand, long-term unemployment makes it very difficult for individuals affected by this nemesis of contemporary society to resume their professions.

Arbitration is not an appropriate method for the settlement of disputes concerning the height of wage rates. If the arbitrators' award fixes wage rates exactly at the potential market rate or below that rate, it is supererogatory. But if it fixes wage rates above the potential market rate, the consequence is ***institutional unemployment***.

If government spending is financed by taxing the citizens or borrowing from them, the citizens' power to spend and invest is curtailed to the same extent as that of the public treasury expands; no additional jobs are created. The taxation of incomes has ambiguous effects on the labour production factor (Raynauld, Stringer & Weber, 1989, pp. 232–235). In the case of constant demand for labour, the supply decreases as taxation increases, and gross hourly wages are higher than the net wages the employee is left

with. In point **A**, Figure 3.9, the value of output turned up during the last hour of work equals the value of an additional hour of leisure.

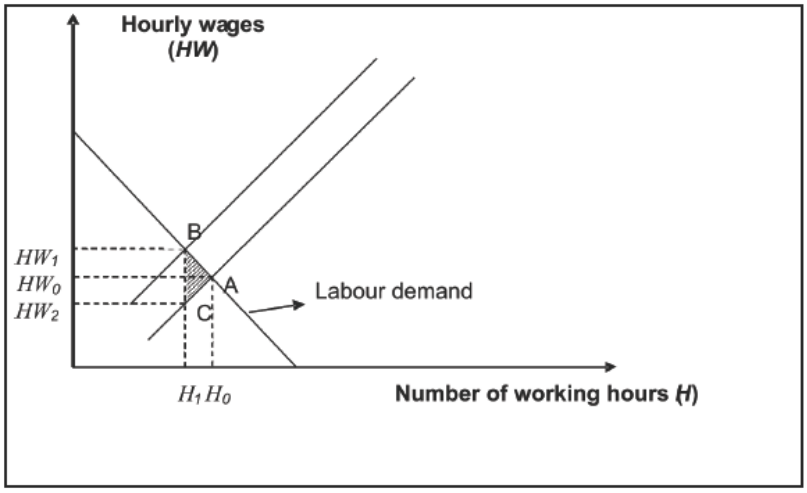

Figure 3.9 **The effect of income taxation on labour supply**
Source: Raynauld, Stringer & Weber, 1989, pp. 232–235

The taxation reduces the net hourly wage, so that individuals who are willing to work for an hourly wage of 10 m.u. will demand gross wages of 15 m. u. in the case of a 50% tax or 12.5 m.u. in the case of a 25% tax. Once income tax rises, the supply curve shifts left, to point B. At this point, the value of output turned up during the last hour of work is higher than the value of the same work hour, if this were given to leisure (HW_2). The decrease in the working hours from H_0 to H_1 bring about a drop in the living standard, since the nominal hourly wage is reduced from HW_0 la HW_2, an evolution illustrated by the striped area.

The rise of taxation leads to diminishing working hours that individuals are willing to undertake. The excess of demand resulted should then lead to a drop in unemployment. In reality, the effects are perverse, since employers are more strongly affected by the rise in taxation than their employees. This means that employers will rather resort to tax-free black employment for the additional labour needed.

If a government uses inflation to finance public expenditure, the effect will be the rise of prices for other goods and services. Keynes considered credit expansion an efficient method for the abolition of unemployment; which is not true in the long run. In practice all these devices of an alleged full employment policy finally lead to the establishment of Rhine-like models.

Contemporary literature documents the rebound of the Rhine model. It would thus appear that in the early '90s, Swedish economy experienced a stalemate, brought about the slowdown of economic growth and evolution of productivity or of the balance of deficit payments (Albert, [1991] 1996, pp. 127–141).

Social solidarity started out with good intentions but turned into a disadvantage, leading to inflation, external imbalance, a relative decrease of the living standards, decreasing birth rates, increased percentages of inactive individuals in relation with active employees, the crisis of the retirement fund system, increased social security costs due to the decrease in number of people paying contributions to this system, a decrease in the efficiency of scientific research activities, etc.

The same trends were recorded in Japan and Germany. Other effects mentioned and deemed negative are:

- shortened working weeks (in Germany unions have asked for 35 hour-working weeks, while in Japan it dropped from 44 to 42 hours);
- longer leave periods;
- the liberalization of the labour market, with negative effects on the level of wages (in Sweden, for instance, unions have ceased negotiating national wages and have settled for company

negotiations, which is a source of inflation and brings about decreased competitiveness, whereas in Germany the elimination of certain hierarchical positions in order to speed up the decision-making process has led to demands regarding pay raises granted much faster, as well as to the employees' wish for accelerated promotion), etc.

Consequently, the old system is perceived as cumbersome and slow, and companies demand a higher freedom of movement. The rising power of international financial markets in the countries where the Rhine model was put into practice, following the internationalization of specific activities, has led to a diminished power of central banks and national treasuries with respect to taxation, interest rates, monetary mass, etc., which has triggered the curtailing of freedom of economic policies.

Financial globalization has given rise to three main trends, respectively the development of innovation, internationalization and deregulation. New technologies have become a vector of financial expansion, triggering the opening of economies outside and an increased ratio between exported commodities and commodities consumed on external markets.

In its turn, industry has become globalize, due to the need to enter new markets and to outsource production processes, following necessary cost cutbacks. Deregulation has resulted in relaxed rules and the removal of barriers.

Changes in the financial area have triggered two main outcomes. The first is the annihilation of borders (according to Maurice Allais, Nobel laureate, ***the world has been transformed into a huge casino)***; the second outcome is a constraint-free market (full of innovation and risks). These outcomes have become the means whereby ***the ultra-liberal or neo-American model*** has spread, which is in truth ***a Trojan horse at the heart of the Rhine model.***

Supporters of the doctrine upheld by Ludwig von Mises, reunited around the institute bearing his name, have seriously challenged the minimum wage law, the activity of unions and the intervention of public authorities in the economic and social life.

M. N. Rothbard estimates that the minimum wage law must perforce trigger a period of unemployment (Rothbard, 1990, pp. 18–19), since a significant part of short-term labour agreements become illegal, while the employees become unemployed. Under these circumstances, the curves of demand decrease, and the curve of labour demand is no exception.

Therefore, the minimum wage, which is primarily aimed at protecting employees and fighting poverty, eventually results in unemployment, so the higher the minimum wage, the higher the number of individuals unemployed.

L. H. Rockwell regards unionism as a scourge. He demonstrates (1990, pp. 21–27) that at the time when airlines were hobbled by a legacy of bureaucratic management and their operation was regulated by the government, the outcome was rising prices and a decreasing quality of services. Subsequent efforts made under the Carter administration to increase the efficiency of such companies were hamstrung by union opposition.

One of the most important traits of labour unions is that they are not simple associations of workers but ***"conspiracies against" the public interest.*** The author emphasizes the persecution by union members of workers who chose to go on working in order to maintain their families. Legally, unions are virtually immune from prosecution for assaults and property damage during strikes. The crucial role of unions in representing American workers should nevertheless be underlined. In 1990, only 15% of the workers were union members, as opposed to 25% in 1955. Experts estimate that their numbers decreased to 10% in 2000.

It is considered that the quasi-governmental power of public-sector unions (like the postal workers and the National Education Association) is incompatible with constitutional liberties, even if unions represent 34% of government employees. Another myth is that unions were founded to assist the poor and oppressed. Today, ***the purpose of unions is largely to protect middle-upper class*** workers from wage competition.

In truth, unions do not and cannot raise wages in general, since wages are determined by the increased productivity of labour. Unions can only raise their own pay. It is impossible to measure precisely how much damage unions do to the U.S. economy. Yet there are experts who estimate that real income would

rise 10% if unions disappeared. Rockwell believes that the solution to union violence and inefficiency is to cut off the government's tentacles. This would mean justice for private property, working people, and consumers alike.

Mises stated that a free market economy is a carefully balanced and complex network of prices and exchange relations. If the government intervenes in order to correct a real or imaginary issue, than this state of equilibrium will be thrown off-balance, eventually resulting in other issues, which will only serve to justify future intervention. This is what Mises called ***the logic of interventionism*** and the reasons why an economy subject to interventionism is so unstable. In his view, the freedom of an economy is secure only when the absolute rights to individual freedom and private property are recognized.

3.5 Hayek Regarding Labour Force, Employment and Unemployment

In 1975, Friederich Augustus von Hayek stated that "***following a unique period of Western welfare, we have arrived at a critical point***". This evolution was due to excessive credit expansion and maintaining open inflation, which has ensure full employment and even over-employment (Hayek, 1975, pp. 15–16). Hayek criticized the policy of industrialized Western countries, which promised to put a stop to inflation and maintain full employment, stating that such a goal is impossible to attain.

The monetary and credit policy put into practice all throughout the period following the Second World War has put industrial countries in a situation where any corrective measure would result in most unpleasant consequences. According to the data presented in publications in the USA, the evolution of unemployment during 1929–1975 was as follows (Roberston & Walton, 1979, pp. 485–490):

At the end of the 1960s, the US economy entered recession. Economists, government officials and union leaders were in complete disagreement over the tolerable (acceptable or natural) rate of unemployment. The majority of opinions estimated that a rate of unemployment of 4% is unavoidable in times of peace.

But even this level is deemed unacceptable by unemployed individuals, estimating that their situation is no easier than that of workers affected by cyclical unemployment, even if the short-term effects of acceptable unemployment are bearable, thanks to social security.

Table 3.3 **Evolution of unemployment between 1929 and 1975**

Year	Number of unemployed people (thousands)	Percentage of workforce (%)
1929	1.550	3.2
1933	12.830	24.9
1935	10.610	20.1
1940	8.120	14.6
1945	1.100	2.5
1950	3.250	7.0
1960	3.900	7.5
1970	4.100	7.5
1975	7.100	15.0

Source: Roberston & Walton, 1979, pp. 485-490

If the rate of unemployment rises over the acceptable value, a chronic lack of unemployment results, especially in those industries manufacturing long-term use commodities, while political pressure to decrease unemployment in urban areas increases.

In the early 1970s, negative changes occurred in the characteristics of unemployment, for instance: the average duration of unemployment increased from 9 weeks in 1970 to 12 weeks in 1971; the percentage of unemployed women and youth rose from 37.4% in 1960–1961 (the rate of unemployment for these categories was below 44%), to 43.1% in 1969–1971 (with a 58% rate of unemployment).

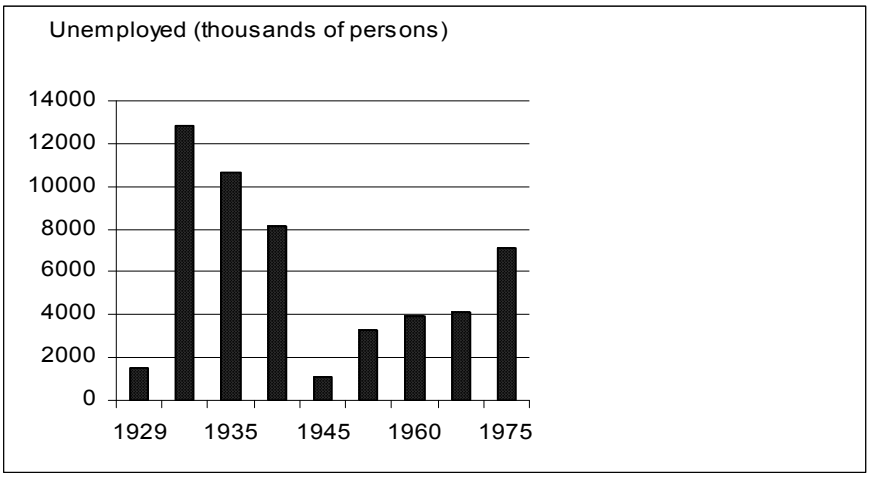

Figure 3.10 **Unemployment in the USA in 1929–1975**
Source: Roberston & Walton, 1979, pp. 485-490

The 1970s provided harsh lessons with respect to the attempts made to decrease unemployment by extending monetary policies, which resulted in enhanced inflation pressure. In the mid-1970s, Hayek noted there were three possible choices: continuing an accelerated open inflation, which is absolutely destructive of an economic system or a market order; imposing control over incomes and prices which would result in a slowdown of inflation but also in a centralized, almost totalitarian economic system; putting a stop to the amount of money in the economy, which would soon result in a high rate of unemployment, due to the wrong direction of labour market policies.

At the same time, Hayek showed that economic policies between the two world wars have triggered a rise in unemployment, as the rate of inflation diminished. Consequently, he underlined that Keynes's "**General Theory**" was grounded in the crisis of 1929–1933, in an exceptional, almost unique time for British economy. Keynes then formulated the ***fatal idea***, namely, ***that unemployment is predominantly due to an insufficiency of aggregate demand,*** which is compared to the aggregate incomes to be paid in case workers received the same pay (Hayek, 1975, pp. 19–20).

Lionel Robbins commented on Keynesian doctrine in even harsher terms (Robbins, 1970, p. 39), arguing that ***no one who has read Keynes' "General Theory" with anything likes an open mind can ever think of things in quite the same way again***.

He argued that the reasons behind his opinion are to be found precisely in the ideas Keynes put forth, namely: an insistence on the pivotal importance of aggregate demand in the determination of the volume of employment and output at given rates of wages; an exhibition of the dominating role of consumption, expressed as a simple function of income, and of investment, expressed as a function of the marginal efficiency of capital, which influences aggregate demand in various ways; a repudiation of the logical consistency of a non-monetary theory of interest, and the substitution of an explanation running in terms of the quantity of money and a schedule of liquidity preference; the possibility of underemployment equilibrium.

According to Hayek, a much more realistic theory of unemployment stipulated that the extension of this phenomenon is due to the discrepancy between the following elements:

1. the allocation of labour and other resources among the production of those outputs;
2. and the distribution of demand among the different goods and services.

Hayek believes that unemployment indicates that the structure of relative prices and wages has been distorted, and that to restore equality between the demand and the supply of labour in all sectors, changes of relative prices and some transfers of labour will be necessary. In other words, the cause of unemployment would be a deviation from equilibrium prices and wages, which would be brought about by market liberalization and a stable currency.

The issue is that no statistical proof can be brought to substantiate a strict correlation between the distortion of relative prices and the level of unemployment. Hayek's view is that a general increase of prices respectively inflation is as a rule preceded by a rise of employment, which is welcome, even if the positive effects of such an evolution are only visible later on.

Hayek wondered, therefore, why we oppose inflation, if it provides full employment. The reply to this question (Hayek, 1975, pp. 22–24) is divided into two parts: in the first part, he outlines the reasons why inflation is an unwelcome phenomenon:

- The phenomenon of inflation causes a lack of equilibrium, to the extent that sooner or later, it will become impossible for the market economy to operate;
- Long-term inflation leads to the inevitable rise of unemployment, which contradicts the initial theory (promoted by Keynes), according to which unemployment may decrease if inflation rises.

In the second part of his answer, Hayek claims that the negative effects of inflation are the decreased value of wage incomes and the erroneous policies adopted in the area of labour. Inflation may make certain labour appear appealing, but this phenomenon is only temporary.

But this appeal wanes again because of inflation, since, on the one hand, this alters the cash flow between various fields or stages of production, and on the other hand, it creates even higher expectations regarding the rise of prices and wages.

The supporters of the monetary policy of full employment argue that a single rise of aggregate demand would be sufficient to endure full employment over a long, undefined period of time. This idea is not realistic because the elasticity of goods is different, which means that different actions should be taken in every economic sector, which is impossible.

The main conclusion to draw is that the longer the period of inflation, the higher the number of workers whose jobs depend on continuing inflation. Moreover, the rate of inflation records an accelerated growth because of policies thus employed, which is the result of the fact that workers are ***dragged*** by inflation towards temporarily attractive employment which, because of the continuously rising prices, will shortly disappear.

However, Friederich Hayek ***doesn't recommend unemployment as the solution to inflation,*** stating that a choice has to be made between a number of unemployed people in the short run or mass unemployment in the long run. In this sense, Hayek recommends a few measures to reduce inflation without giving rise to very high unemployment, such as (Ibidem pp. 25–29):

1. Decreasing the growth of the money mass or at least the rate of growth of output;
2. Restoring the level of relative income, by the market, on condition that market mechanisms function in a satisfactory manner;
3. Preventing economic recession from turning into depression;
4. Maintaining a high and stable level of employment instead of ensuring full employment.

The idea underlying Hayek's theory was that the main purpose of economic policies should be to restore a functioning of the market which, by means of the free play of prices, would ensure equilibrium

between the demand and supply of commodities for every economic sector. Hayek estimates that the discrepancies between the distribution of demand among the different goods and services and the allocation of labour and other resources among the production of those outputs represent both the main cause of high unemployment and the reason why unemployment cannot be reduced through inflation.

He believes that experts benefit from a fairly good knowledge of the forces by which a correspondence between demand and supply in the different sectors of the economic system is brought about, of the conditions under which it will be achieved, and of the factors likely to prevent such an adjustment.

Therefore, there is sufficient information to prompt the belief that unemployment indicates that the structure of relative prices and wages has been distorted, usually by monopolistic governmental price fixing. Hayek thus puts forth the idea that to restore equality between the demand and the supply of labour in all sectors changes of relative prices and some transfers of labour will be necessary

Hayek concludes (Ibidem, pp. 192–195) that the greatest shortcoming of inflation is that, sooner or later, it leads to the unavoidable spread of unemployment, and more and more employees come to depend on accelerating inflation to keep their jobs.

In this case, any attempt at slowing down inflation will result in such a high rate of unemployment that authorities will abandon it and will resume the rise of inflation.

This evolution cannot last for long since it leads to the total disruption of economic and social life. The situation is made even more serious by the fact that an efficient use of resources cannot take place in the absence of a functional labour market, and such a market can exist even when strong unions react to any excessive level of unemployment. While advisers, politicians and economists used to believe that it is possible to positively combine inflation and unemployment, it turned out that this is possible only over short periods of time.

3.6 Recent Neoliberal Theories about Labour, Employment and Unemployment

Nowadays there is a variety of ideas of neoliberal inspiration, regarding two of the most important issues that contemporary economies are confronted with, regardless of their level of development. P. Heyne introduces the analysis of unemployment and employment in the context of liberal economic thought, while J. Gershuny approaches the same issue for a post-industrial society. Y. Barou and J. Rigaudiat insist on the methods of measuring and predicting unemployment; C. T. Whelan looks into the relationship between the prevailing conditions of employment and job satisfaction, while other authors attempt to emphasize the influence of increasing labour mobility on the occupational sector. The variety of concerns of experts in the field calls for a short overview of the more significant points.

3.6.1 Paul Heyne

Paul Heyne approaches the issues of labour market starting with the negative effects of inflation on the economic life. He estimates that one of the most important costs generated by inflation is reflected by and regards the loss of confidence and welfare.

Adam Smith used to say that co-operation is the basis of society and civilization, so that every member of society should embrace the interests of others as his own. If people feel they are at a disadvantage, and the losses caused by inflation add to faulty means of wealth remittance, then the feelings of injustice could reach critical levels.

During the periods of economic recession, growth rates are diminished in all economic fields. On the USA territory, by general consensus, the National Bureau of Economic Research has the privilege of deciding, officially the moment in which the slowing down of economic growth changes into recession.

Paul Heyne speculates ([1973] 1991, pp. 400–402), and justly so, whether all substantial growth slowdowns shift into recession and if perpetual growth is the only way in which economic activity might be developed. Thereby he supports the idea that, by and large, the cost of recession is represented by unmet expectations. The issue is that these are not revealed by the development of aggregated growth indicators, such as the gross domestic product, for instance.

As a result of the diminishing cashed incomes from the sale of goods during recession periods, the economic agents cut back on output growth rates and downsize the number of employees, inevitably generating unemployment. Hence, recession is a reason of unemployment increase only it does not start from nil nor it returns to nil when the recession period is over.

As early as 1944, part of the labour force (1.2 %) was deemed unemployed in a period when the sixth part of available labour resources were in the army and individuals left school or returned on the labour market from retirement/pension in order to work for six or even seven days per week.

Unemployment does not represent a negative state as long as its level does not exceed natural or frictional unemployment. Therefore, a distinction should be made between unemployed and temporarily jobless individuals, respectively between people intending to find a job and those who are not satisfied with their jobs and quit them. Assuming that unemployment results from the decisions of economic agents and individuals, it should not be presumed that all of them make the right decisions, or that the unemployed are content with the situation they are in. In order for the decision taken to be optimal, individual expectations regarding the relative costs and advantages of alternative decisions should be taken into account.

Heyne's ***"Economic Way of Thinking"*** is meant to explain the shifts occurred in the evolution of social phenomena, including here unemployment, as consequence of a perception change on costs and benefits of the choices made.

As result, the Bureau of Labour Statistics makes a clear differentiation between the decision of actively seeking a job and the decision to reject the provided opportunity. The general state of the US labour market (Heyne, 1997, pp. 405–408) in the period 1950-1995 as shown by statistical records is outlined in Table 3.4.

The analysis was performed on a representative sample of 60,000 households and by taking into account the entire non-institutional population of 16 years of age and over. This non-institutional population is made up of working age, economically active and inactive individuals (this category includes the unemployed and people accepting a job, respectively the employed).

The criteria taken into consideration for an individual to be regarded as unemployed are the following: they have to be to be in the category of non-institutional population; they should have been unemployed for the last week; they have actively undertaken to find a job (this category also includes people who would be recalled to their old job after 6 months, or who would start working within the following 30 days); they should be immediately available to start working.

Based on collected data, the unemployment rate and the employment rate for the respective period of time were computed, and the evolution of these data indicates that unemployment was on the rise, pointing to the incapacity of the economic system to create new jobs.

Table 3.4 **The General State of the US Labour Market in 1950–1995**

Year	Non-institutional population [thousands]	Labour force [thousands]	Non-institutional population ratio [%]	Employed [thousands]	Unemployed [thousands]	Unemployment rate [%]	Employment rate [%]
1950	104,995	62,208	59.2	58,918	3,288	5.3	56.1
1955	109,683	65,023	59.3	62,170	2,852	4.4	56.7
1960	117,245	69,628	59.4	65,778	3,852	5.5	56.1
1965	126,513	74,455	58.9	71,088	3,366	4.5	56.2
1970	137,085	82,771	60.4	78,678	4,093	4.9	57.4
1975	153,153	93,775	61.2	84,846	7,929	8.5	56.1
1980	167,745	106.940	63.8	99,303	7,637	7.1	59.2
1985	178,206	115,461	64.8	107,150	8,312	7.2	60.1
1990	188,049	124,787	66.4	117,914	6,874	5.5	62.7
1995	198,584	132,304	66.6	124,900	7,404	5.6	62.9

Source: Heyne, 1997, pp. 405–408

As noted, the data in Table 3.4 differ from the data in Table 3.3 in terms of the numbers of unemployed workers. These differences are due to the changes introduced in the methodology used by the Bureau of Labour Statistics to quantify unemployment, which have been outlined in the second chapter of the paper.

The overview of unemployment presented above has nevertheless certain shortcomings. First off, it cannot explain why so many people fail to find the jobs they desire, or why the number of unemployed has increased by 100% in 1995 compared to 1950, even if, according to the presented data, the rate of employment rose from 56.1% in 1950 to 62.9% in 1995.

The cost of employment and the costs of taking up a new job (Ibidem, pp. 409–410) differ from one individual to another, depending on certain factors such as: experience, skills, age, family responsibilities, other sources of income, and possibly the system of values and attitude towards work of each individual. The situation is just as difficult for employers. Youth in their training period won't find acceptable jobs, either because they are still undertaking their studies and have only short periods of time available, or are during holidays, or because the employers consider that the costs for their training would be too high.

The analysis performed by Heyne is rather poor with respect to the field of employment and unemployment, because it is limited to simply juxtaposing these two phenomena, with rather superficial references to the reasons and factors underlying them. He only remarks that one of the reasons for the increasing rate of unemployment after 1960 is undoubtedly the decision of public authorities to provide social security, such as unemployment doles, for an ever increasing number of individuals.

3.6.2 Employment in Post-Industrial Society

Jonathan Gershuny notices the changes in the occupational field, which took place as society evolved from the pre-industrial and industrial development stages, where the ***service economy*** was operational, to the post-industrial stage, where economic activities are operated in the ***self-service economy*** (or the economy which develops as result of own and free efforts of the economic agents) (Gershuny, 1978, p. 59).

Gershuny proposes two classification criteria of the occupational field which are apparently identical:

- ***The industrial classification of occupations***, function of the type of goods and services consumed by society: manual, technical, clerical, administrative, medical, legal, financial-accounting, etc.
- ***The occupational classification***, based on the nature of the work, or the share of some occupational categories within the range of occupations at a given time: lawyers, physicians, engineers, accountants, priests, etc.

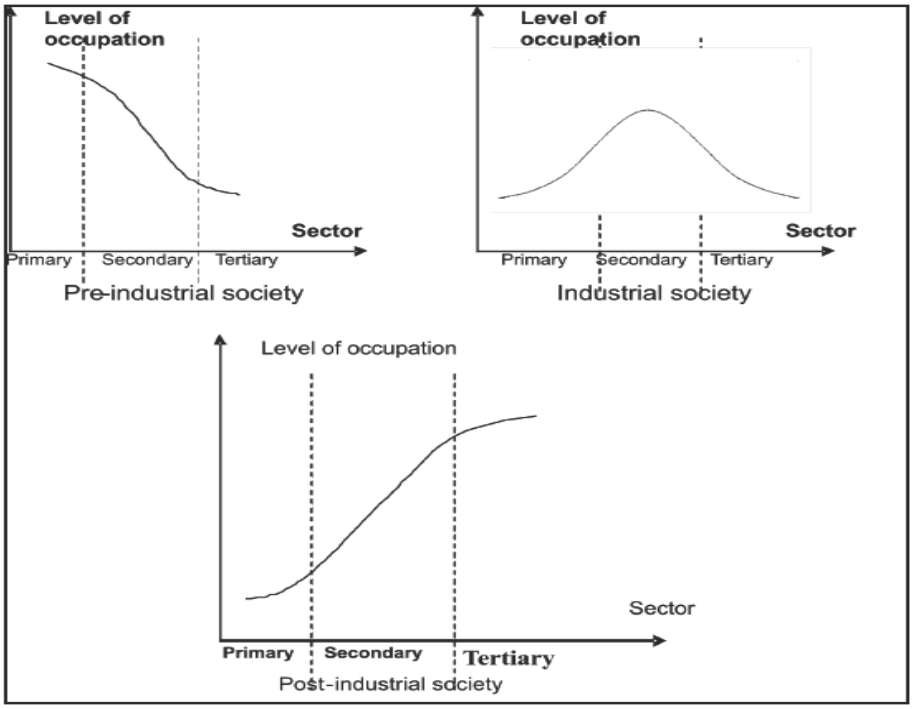

Figure 3.11 **Evolution of the level of occupation per economic sectors**
Source: Gershuny, 1978, p. 114

With respect to the nature of work in changing economies, Gershuny mentions both the progress and degradation of labour as factors of influence (Ibidem, p. 114). An issue that might arise is whether it is necessary for jobs, respectively occupations, to permanently lose some of their value because of technical and organisational developments. Many experts have attempted to address this issue.

Firstly, there are opinions according to which there will be a drastic decrease of manual and repetitive work, due to the increased level of automation of organizations.

Secondly, another effect of progress will be the rising opportunities for technical education, as well as improved qualification of workers operating automated systems. In his analysis, Gershuny emphasises the changes that took place in the distribution of workers at the level of economic sectors, following the same pace as the development of society, by underlining that the processes triggering these changes are: shifts occurred in the production systems, the altered balance between industries, changes in household organisation, etc.

In other words, the factors responsible for the way in which the occupational field develops might be considered to be organisational, related to labour division, and the technical factors represented by innovation and investments in high-tech. Concluding his considerations, Jonathan Gershuny remarks on

the fact that the current system of organising and developing economic activities also experiences some problems.

One of the issues is represented by ***the surfacing of unemployment*** in the tertiary sector to a larger extent than in previous periods. Another issue is the ***isolation*** to which ***households*** are exposed, as they are the centrepiece of output and consumption. The reason behind it stems from the fact that once ***the self-servicing of households*** is increasingly satisfactory, these become less sociable.

3.6.3 Developments in Measuring and Forecasting Unemployment

Others appreciate (Zirra, 2009b, pp. 18-27) that the employment rate is a variable category in time. Based on the studies in the field, Y. Barou and J. Rigaudiat (1985) have established that, when the level of employment decreases by one unit, it does not immediately follow that unemployment will be by one unit higher (Preda, 2002, pp. 64–65). Moreover, if a new job is created on the labour market, it does not implicitly follow that unemployment would decrease by one unit as well. Official unemployment is computed as the difference between active population and employed population, but this calculation is simplistic and does not pinpoint the actual evolution of the phenomenon. If the intention is to make a forecast about unemployment for short periods of time, the authors suggest using the following relationship:

$$\Delta U = 0.38\Delta P_{pa} - 0.38\Delta P_{ea} - 0.63\Delta P_{ei} - 0.19\Delta P_{es}, \qquad (1)$$

Where:

ΔU = short-term evolution of unemployment;

P_{pa} = potentially active population, or the labour resources of the country;

P_{ea} = population employed in agriculture;

P_{ei} = population employed in industry;

P_{es} = population employed in the tertiary sector (services).

The coefficients in this relationship represent values computed by the INSEE for the economy of France. In the model thus developed, it is considered that unemployment might decrease by a unit in one of the following situations:

1. There are 1 : 0.38 = 2.632 jobs created in agriculture
2. There are 1 : 0.63 = 1.587 jobs created in industry; (2)
3. There are 1 : 0.19 = 5.263 jobs created in the tertiary sector.

It is appreciated that the analysis is also valid in reverse, respectively, unemployment might increase by a unit if in agriculture 2.632 jobs are lost, 1.587 jobs are lost in industry and 5.263 in the tertiary sector. If the number of jobs is constant, then unemployment increases/decreases by one unit if the labour resources increase/decrease by 2.632 potentially active workers. The model has the advantage of allowing for a more rigorous estimation of unemployment situation in the short rune, and, as a result it also allows for the adjustment of policies for the labour market, even if just under the form of surface corrections. Unfortunately, the authors do not present the ways in which the coefficients could be adjusted, so as to be used in circumstances of swift changes in economic conditions. Furthermore, considering the quick changes that the world economy is undergoing at present, the model couldn't be used for realistic forecasts on the evolution of unemployment in the medium to long term.

3.6.4 The Relationship between Current Conditions of Employment and Job Satisfaction

In the last decades, various opinions took shape regarding the influence of the conditions under which employment is achieved on the satisfaction of workers during the work process. To this end, C.T. Whelan

introduces (1980, p. 11) occupational stratification and the influence it exerts on the estimation of performed labour. For instance, the Hall-Jones scale of occupational prestige comprises eight levels of occupational stratification:

1. Occupations in various fields of expertise, administrative and managerial, located on higher hierarchical levels;
2. Occupations in various fields of expertise, administrative and managerial, located on lower hierarchical levels;
3. Occupations regarding inspection, supervision and other non-manual activities at high level;
4. Occupations regarding inspection, supervision and other non-manual activities at low level;
5. Non-manual routine occupations;
6. Skilled manual occupations;
7. Semi-skilled manual occupations;
8. Unskilled manual occupations.

There are significant differences between these categories with respect to the level of weekly incomes, starting from differentiations between manual skilled workers and workers delivering non-manual, routine activities. This aspect is used as an argument for the fact that social classes and strata are regarded as separate dimensions of the occupational stratification.

Whelan also approaches the issue of the influence of the occupational stratification on estimating equitableness, indicating that the two individuals, *x* and *y*, are equitably assessed if the following equality is met (Ibidem, p. 13):

$$\frac{V_x}{I_x} = \frac{V_y}{I_y}, \text{ where:} \quad (1)$$

V_x = the reward given to *x* for developed activity at the workplace;
V_y = the reward given to *y* for the activity developed at the workplace;
I_x = education level, experience, intelligence and training of *x*;
I_y = education level, experience, intelligence and training of *y*.

A necessary observation would be that the assessment of the two individuals should be made in the situation in which the rewards originate from the same source. The equitable perception regarding performance assessment is defined by the perception of equality between the rates of rewards for each individual. Whelan shows that the way in which a full-time employee might achieve job satisfaction is closely related to the following set of occupational rewards: wage; attractiveness of undertaken activity; job security; decisional freedom about the way in which a job task is performed; chances of promotion, etc.

Nevertheless, in assessing occupational rewards, the following considerations should be taken into account (Ibidem, pp. 17–19):

- The relationships established between the assessments and the system of occupational stratification;
- The distribution of wage bonuses;
- The creation of distinct socio-economic groups;
- The perception of the distribution of rewards;
- The extent to which the employees identify themselves as members of a socio-economic group.

This approach analyses the field of employment rather from a social and psychological perspective, and less from an economic one, without establishing a truly complex theory of employment and unemployment at the present stage of economic development.

3.6.5 The Relationship between Labour Mobility and Employment

Labour force mobility, or its migration generally takes place, as a rule, as a result of the individuals' wish to gain a higher standard of living and social status. The unprecedented intensification of the freedom of movement of the labour force, as one of the outcomes of globalisation, also triggers transformations in the field of employment at national and international level (Perț e t al., 2004, p. 30). Various models can be used to assess this phenomenon.

One of these is the ***Nakosten and Zimmer Model*** (1980), which outlines the means of assessing the benefits of migration (Ibidem, p. 31). $M^* = c \cdot w + u$, where M* = marginal benefit of the migration decision, and $c \cdot w + u$ = model of the index function, which is reached by comparing the wages of the previous job (Y_0) to the wages obtained on the new job (Y_n), as follows:

$$Y_0 = b_0 \cdot x_0 + e_0,\ Y_n = b_n \cdot x_n + e_n, \text{ and } c = a \cdot z + v, \quad (1)$$

Which makes that $M^* = Y_n - Y_0 - c$, an equivalent of the first formula (2)

According to this type of model, the income levels and the degree of labour force employment in the host and origin countries could be mentioned among the causes triggering the migration of labour. Next to these reasons, mention should be made of the intensity of the migration phenomenon in the two countries, the degree of mobility of the labour force between the borders of the countries analysed, the compliance with human rights and the fundamental rights of individuals, the general level of culture and education, etc.

The Fertig and Schimid Model (2000) is used to estimate the external migration between two countries (Ibidem, p. 32). The proposed equation for estimating the level of migration is:

$$m_t = a + \sum_k b_k \cdot x_k + c \cdot m_{t-1} + e_t, \text{ where:} \quad (3)$$

- m_t = migration level in year *t*;
- m_{t-1} = migration level of the previous year;
- x_k = dummy explicative variables, for instance the extent to which the language of the host country is known, the way in which the issue of immigration is handled in the respective country, the existence of common borders, the compliance with human rights, etc.;
- a, b_k, c = index type parameters, that should be supervised/estimated;
- c = parameter estimating the dynamics of the phenomenon of migration and which might have different values;
- $c > 1$ indicates that the phenomenon of migration rose during the analysed period;
- $c < 1$ indicates that the phenomenon of migration decreased during the analysed period;
- $c = 1$ shows that the migration phenomenon was stationary during the period under analysis.

The Hatton Model (1995) was designed to bring corrections, to a certain extent, to the estimation errors of the phenomenon of labour force migration, starting from the current and preceding values of the explicative variables (x_k) (Ibidem, pp. 32–33).

$$\Delta m_{h,t} = b_1 \Delta \ln\left(\frac{S_d}{S_0}\right)_t + b_2 \Delta \ln(e_d)_t + b_3 \Delta \ln(e_o)_t + b_4 \ln\left(\frac{S_d}{S_0}\right)_{t-1} + b_5 \ln(e_d)_{t-1} + b_6 \ln(e_0)_{t-1} + b_7 m_{h,t-1}$$

where: (4)

- ln = natural logarithm of the analysed indicator;
- $(e_d)_{t/t-1}$ = employment rate in the host country for the current year (*t*) /preceding year (*t-1*);
- $(e_o)_{t/t-1}$ = employment rate in the country of origin for the current year (*t*) / preceding year (*t-1*);
- S_d = average wages in the host country;

- S_0 = average wages in the country of origin;
- $m_{h,\ t\ /\ t-1}$ = rate of migration in the country of origin for the current year (t) /preceding year ($t-1$), calculated as a relationship between the migrant stock and total population for the year taken into consideration.

It is noted that the following influence factors on the phenomenon of migration model were taken into account in this model:

1. The level of wages in the two countries;
2. The level of employment, which can be a favourable or hindering element in finding a job;
3. The comparison of the rates of unemployment in the two countries, with the one in the host country having higher influence.

To conclude, the models that might be used to assess the migration of labour highlight the strong connections between this phenomenon and the state of the world labour market, but also of the national labour markets both for the current period and for preceding ones. Employment and unemployment are two essential components of the labour market that influence to a high extent, if not decisively, the mobility of labour resources, which is also dependent on this phenomenon, the more so as economic activities become increasingly global and the knowledge-based society becomes increasingly dominant.

3.7 Romanian Neoliberal Theories of Unemployment

In Romania in 1913, **Vintilă I. C. Brătianu** condemned the policies of the conservative party, which supported the privileges of rich landowners and resisted any attempts made by the Romanian state of achieving progress through its own efforts (Iordache, 1972, p. 34). V. Brătianu, as s*upporter and promoter of Romanian neoliberalism, together with Ion N. Angelescu, Mihail Manoilescu, Mitiță Constantinescu and others*, had a significant contribution to finding solutions to the economic and social issues Romania was facing at the turn of the 20th century (Bulborea, 1997, p. 104). Thanks to them, *Romanian neoliberalism was adopted as official doctrine through the 1925 Constitution* (Ibidem, p. 103).

In terms of the *quality of employment*, V. Brătianu supported the idea that *the stability of labour*, more specifically that of public officials is essential for the proper operation of state institutions, since this is the only way to e*nsure that their competence and level of knowledge continuously improved.* Moreover, he believed that the quality of one's employees took precedence over their numbers, so that officials should have clearly designated roles, and their wages should be set at a sufficiently high level to deter corruption.

Vintilă Brătianu was of the opinion that *the criteria to be taken into account when promoting employees are the quality of their performance and their achievements*. These ideas, adapted to the working pattern of public officials, can be applied to any field of activity, even given the economic conditions in contemporary Romania. V. Brătianu was, much like Mitiță Constantinescu, *a fervent supporter of placing labour at the centre of the economic operators' activity* and of considering labour the main production factor. He estimated that the foundations of economic activity have undergone sufficient transformation to allow labour to be considered more than merely subservient to capital and entrepreneurial initiative and rather an active participant in the production process, of equal standing with other production factors (Ibidem, p. 106).

V. Brătianu was the promoter of *self-reliant development*, a strong supporter of industrialization, which he saw as the only way to ensure the future of Romania, as well as the basis underlying the development of all other areas. National interests should always have the upper hand, while resorting to foreign capital should be a solution reserved for those economic fields where there are no sufficient national resources.

Together with Vintilă Brătianu, **Ion N. Angelescu** was an active promoter of Romania's economic independence, firm in a belief that if a nation takes into account the evolution of the world market this isn't tantamount with blindly obeying its trends. Economic history takes up an important part of his concerns, as he was one of the first economists who attempted to provide an overall view of the evolution

of Romanian economic life (Constantinescu, 1999, p. 191). The concepts developed by Ion Angelescu rely on the mutual dependence between the economic and cultural development of human resources in general and the workforce in particular. He believed that economic research plays a decisive part in the development and progress of a country. He took the view that economic and social cultural underlie the legal framework of social order (Ibidem, p. 382), particularly in situation of economic or other types of crises.

Throughout his career, Angelescu upheld *the necessity to enhance both the cultural level and the level of training of individuals,* since this would be one of the best ways to achieve economic and social progress. He was one of the supporters of cooperatives, demonstrating that they play a beneficial economic and social role, by improving the precarious living conditions of the population in Romanian rural areas; by facilitating workers' show of initiative and inventiveness; by raising the cultural level and living standards of the rural population. In agreement with Vintilă Brătianu's policy, *Ion Angelescu stressed the major importance of improving the quality of a country's human resources on increasing product competitiveness, both nationally and globally.* No nation can put itself forth on the international market as long as its population lives mainly in the rural areas, has an extremely low level of culture and civilization and, because of the use of rudimentary production means, the level of productivity is unprofitable.

Along the same vein, **Mitiță Constantinescu** made a significant contribution to i*dentifying of the most important issues Romanian economy was struggling with between the two world wars* and to formulating adequate policies to deal with them. He pointed to certain *imbalances in the Romanian economy*.

1. Between industry and agriculture, due to the disproportionate significance of the latter in the national economy;
2. The qualitative and quantitative imbalance between imports and exports, in favour of the former;
3. Between a strong public sector, subject to interventionism, and the private sector operating on free initiative.

M. Constantinescu believed that these imbalances are the *main cause behind the low efficiency of the national economy*. As far as *labour as production factor* was concerned, it was considered a *catalyst of the economic growth process* (Constantinescu, 1943, pp. 148–153). Constantinescu's approach to companies' human resources was largely ignored by the economic policies dating from that time, since labour was mainly restricted to worker contingents in the industry. This was an essential premise for the weak performance of Romanian organizations. The conclusion to be drawn is that *labour-related economic policies* should target strengthening and reconsidering expert opinions regarding the *extraordinary importance of labour* in production processes.

The Romanian economist remarked on the fact that an increasing birth rate brings about rising needs, so he proposed measures that would enhance work productivity, in order to cater to the rising food needs of a growing population. Moreover, M. Constantinescu approached the issue of the increased level of employment of the rural population, which was characterized by an excess of labour supply. Given the limited availability of land, he proposed its redirection towards industrialized urban areas. For this concept to be successful and be put into practice, it was highly necessary to improve working conditions in the industry at the same time. Constantinescu pointed at several issues regarding *the percentages of the population employed in industry:*

- In large organizations:
  - management staff: 40%;
  - administrative personnel: 52%;
  - skilled workers: 51%;
  - higher technical staff: 52%;
  - unskilled workers: 68%;
- In small organizations:
  - management staff: 19%;
  - administrative personnel: 20%;

- skilled workers: 16%;
- unskilled workers: 30%.

The following measures were put forth in order to *improve the situation of the level of employment* (Ibidem, pp. 156–157):

1. A more precise understanding of the part played by the human factor in the labour process, providing appropriate assistance to do so and setting human resources at the heart of economic policies;
2. Improving the qualification and training of Romanian workers with the help of an adequate, high-performance educational system, so that they would turn out as competent and competitive on the labour market as foreign workers;
3. Setting up credit institutions for workers and trades, to support and encourage free initiative;
4. Applying a fair and equitable wage system which would provide for a decent living and for improved living conditions of workers and their families.

In full agreement with the ideas put forth by Brătianu and Angelescu, Constantinescu underlined the fact that *economic policies should focus on meeting certain key-gives for Romanian economy*, such as improving the quality of agricultural output, granting special importance to industrialization and increasing work productivity in all industrial and farming enterprises. Avant-garde concepts promoted by Romanian neoliberal economists, such as the need for an equitable wage system, the pressing need to improve the quality of the country's labour resources and the part played by high-quality education in achieving such objectives could be compared, making allowances for the period and country specifics, to the theories advanced by famous names such as Milton Friedman or Gary S. Becker.

One of the most prominent supporters and analysts of the neoliberal trend in Romania was **Ştefan Zeletin.** In 1927, he saw neoliberalism as the natural spin-off of the development of capitalism, stemming from the evolution laws of this type of organization and operation of economic activities, providing for the fulfilment of Marx's social revolution, but slowly, not suddenly, as the latter had envisaged it (Zeletin, [1927] 2006, pp. 89–92).

As opposed to the neoliberals in Western industrialized countries, *Zeletin underlines he nonsense of an international regime of labour*, pointing out that in the early 20th century, Romania couldn't have been a part of such a system for various reasons (Ibidem, pp. 150–154), such as: the high percentage of employment in agriculture as opposed to the rest of the sectors; the approach to labour and the understanding of the concept of work of Romanian peasants could be likened to those of primitive man; workers in the rural area only work if prompted by a pressing current need.

Zeletin performed *a comparative analysis between workers in Romania and in other countries*, showing that there are both *general and specific factors differentiating* between *the two categories of workers*. The most important of the general factors, seen as an outcome of the First World War, is the excessive importance given to manual labour, due to the need for economic reconstruction and the downsized labour force in the aftermath of the war.

The specific differentiating factors Zeletin mentioned are numerous, but the most representative include: the fees paid to European developed countries for machinery, equipment and borrowed capital; the periodic break-up of production by a chain of feast days; the predominantly rural mentality of Romanian workers; their indolent, unsystematic and little productive work, etc.

In Zeletin's theory, the regime of labour should have a national character and should be correlated with the needs and natural conditions of every country. Moreover, this regime should be adapted to the current state of every stage of economic and social development. He estimated that the dire needs of Romania were related to the education of workers, in the sense of performing uniform and organized activities and of establishing the self-discipline of autonomous work (Ibidem, pp. 155–159).

As opposed to Zeletin, a self-proclaimed supporter of neoliberalism, **Virgil Madgearu** was the man behind the peasant economic doctrine, granting utmost importance to the issues of Romanian agriculture and farmers. Nevertheless, he can be mentioned together with other atypical Romanian neoliberals, due to the liberal ideas he promoted. He stated that Romania needs an intensive development of agriculture and its diversification, and proposed that industry should develop along fulfilling these objectives.

At the same time, he was a *supporter of the use of liberal policies regarding the circulation of goods and capital between countries*. Madgearu believed that a labour-based household is essential in agrarian countries, and their economies develop in a non-capitalist way, connecting the regime of labour to that of land ownership. In his opinion, the state plays a key-role in improving the efficiency of agriculture, since it has to actively participate in increasing labour productivity in this sector, by developing infrastructure works (e.g. irrigation systems) by setting up farming machinery stations, etc.

Madgearu estimated that *the model of employment and the high wages of workers in industrialized countries rely on the state of agrarian countries,* to the same extent that surpassing an economic crisis (whether agrarian or not) depends on increasing farming output (Nicolae–Văleanu, 1996, p. 372).

In 1930, in his speech before the 11th summit of the League of Nations in Geneva, Madgearu pointed out that *the world economy should overcome the economic crisis behind by renewing the economies of agrarian countries*, since the economic crisis was brought about by the agricultural crisis. As to *the labour force employed in industry*, as opposed to M. Constantinescu (whose observations mainly referred to the percentage of Romanian industrial workers), Madgearu stated that is has the following *characteristics* (Constantinescu, 1999, p. 204): job uncertainty; lack of alternatives for workers, who are forced to remain mere employees; the lack of independence of workers, since they were forced to sell labour in order to sustain themselves.

In 1927, Madgearu declared that Romania could not become an industrial country since its natural conditions don't allow this. In 1940, he changed his view, saying that Romania should become an agrarian-industrial country in order to secure its economic independence, so that its labour force could be better used and the excess of supply could be employed in the industry.

A PhD student of Walter Eucken, **Anghel Rugină** was the leading figure most strongly influenced by neoliberalism among Romanian economists. He committed himself to paving the road to a *third revolution* in economic science, then in politics, sociology and logics, by pursuing a unifying methodological approach to all sciences.

Rugină established a rich array of working tools in economic science (Rugină, 1993, pp. 381 – 383), among which a conceptual scheme called an *orientation table,* made up of 7 fundamental models, which he likened to Mendeleev's periodic table in chemistry. Thus he aimed at solving the contradiction between the historical knowledge of economic science (its permanent change) and its theoretical knowledge or its potential form (ideal reality, conceived in an abstract form).

These models are presented in Table 3.5, where Co= pure competition, PM = pure monopoly; Nu = cash-type of currency; anti-Nu = *non-cash type of currency, respectively paper money and monetized credit*, while R_1, R_2, ..., R_7 = the institutional and legal framework of every model.

In Anghel Rugină's view, from an economic point of view, the main aims of the 19th century had been securing economic freedom and low inflation. In the 20th century, everyone turned their attention towards employment and social equitableness (Ibidem, pp. 385–386). He believes that the reason why the problems of unemployment, inflation and social inequity haven't been solved in practice is the failure to solve them first theoretically.

According to Rugină, only two models, M1 and M2, can allow for a *Compensatory Law or the natural Law of Full Employment.* According to it, there is a compensatory flow of investment, real income and employment running back and forth from the non monetary (real) to the monetary sector, and thus securing the realization and maintenance of full employment, and this can only exist in a system of general stable equilibrium. He underlines that if the prices of commodities continue to drop because of excess, then it is profitable to invest in the production of gold and silver (commodities chose to serve as cash currency), thus avoiding an economic crisis, to the advantage of exports, with negative effects on employment. If prices rise because of a lack of commodities, then it is profitable to invest in the production of goods, with positive effects on employment, thus avoiding inflation, to the advantage of imports.

Table 3.5. "**Orientation Table for economic science"**

No.	**Structure of the economic model**	**Characteristics of the model**
M1.	100%(Co + Nu) + R1	This is the model of general stable equilibrium at its limit of perfection and in its more complete form, as envisaged by Leon Walras; it has only a theoretical existence.
M2.	95%(Co + Nu) + 5 % (Mo + anti-Nu) + R_2	This is the model of general stable equilibrium at its limit of perfection and in its more complete form, as described by Adam Smith (a theoretical ideal model, which is found only accidentally in practice, over short stretches of time).
M3.	65%(Co + Nu) + 35% (Mo + anti-Nu) + R_3	This is a mixed economy where equilibrium elements still prevails, and the rest leads to only strong minor disequilibria.
M4.	50%(Co + Nu) + 50% (Mo + anti-Nu) + R_4	This particular combination represents a mixed economy of static nature and hidden stagnation, as described by Keynes, where we have a state of equilibrium with unemployment. Actually, Rugină more accurately calls it an unstable equilibrium with unemployment.
M5.	35%(Co + Nu) + 65% (Mo + anti-Nu) + R_5	This is a mixed economy where disequilibrium elements prevail, economic fluctuations are heightened, the monopoly of public authorities is strong, and the issues of inflation and unemployment cannot be properly tackled.
M6.	5%(Co + Nu) + 95% (Mo + anti-Nu) + R_6	The economics of a centrally planned and controlled economy and society, of a Soviet or Nazi nature, where stable equilibrium cannot be reached, and economic instability is camouflaged.
M7.	100%(Mo + anti-Nu) + R_7	This is the ideal model of a fully collectivized economy, as envisaged by Karl Marx.

Source: Rugină, 1993, pp. 381–383

According to the above-mentioned law, the cash currency should fulfil three fundamental functions, namely it should be: an objective and precise measure of economic value, including of labour; a means of exchange; an absorbent of economic shocks in case of over- or underproduction. The conclusion drawn from Anghel Rugină's theory is that it is only in a system of stable general equilibrium that the aggregate volume of output, income, investment and employment would not shrink by themselves, there existing thus a level of employment close to full employment, predominant in all situations.

3.8 The Implications of Neoclassical and Neoliberal Labour Market Models

If aiming at emphasizing the effects of economic theories and models on the organization and operation of the labour market, then the basic elements should be followed (Stanford, 2000, p. 247), which determine in fact the configuration of the components and institutions on this market. The most important elements among these are:

- Formulating policies to ensure the distribution of incomes;
- The calculation methods and the factors influencing labour density;
- The limits and constraints on initial employment;
- The characteristics of unemployment and the factors triggering long-term unemployment;

- The role of investments in the operation of the labour market;
- The influence of macroeconomic interventions and constraints;
- The influence of global competitiveness;
- The impact of globalization.

The elements mentioned, which are relevant for establishing the way in which the operation of the labour market is influenced, act differently, function of the various models used at a given time in the stages of the development of modern economic thought. The most representative models to be analysed below are the neoclassical model set forth by Leon Walras and the *neoliberal model* also known as the *heterodox model.* Within every model, the key or basic elements are usually used in a very specific way, hardly ever the same, as levers to influence the labour market in general, as well as its competences.

Function of the economic model under analysis, we notice that the weight carried by every key-element is different, since every promoter of an economic theory has their own view of the importance and part played by micro and microeconomic elements in governing phenomena, processes and economic activities. Table 3.6 comprises an overview of the implications of these models on the policies applied on the labour market.

According to the information presented, we can conclude that, in the neoliberal model, as opposed to the neoclassical one, labour market policies no longer aim primarily at full employment. Moreover, the stress has shifted from labour supply, a factor generating limitations and constraints in terms of initial employment, to the decisive influence that the decision-making of economic operators has on the level of employment. This aspect has had a negative impact on the evolution of unemployment in the world, triggering a severe disturbance of working relations and of the operation of the labour market as a whole.

The role of investments in the labour market operation is another element making a clear-cut distinction between the two models. In the neoclassical model, investments indirectly affect employment through the influence they have on the capital market output. Following the increasing importance given to increasing profit in the globalize economy, the application of neoliberal policies in investments decisively and directly affects the level of employment of the labour force.

For this reason, investors partly steer clear of those fields lacking appeal in terms of profitability, such as social services, health care, environmental protection, etc. Therefore, even if such activities are extremely important for ensuring a high quality labour force. They remain relatively neglected, which is an additional perturbing factor in the operating of the labour market.

Table 3.6 **The basic elements and implications of labour market economic models**

No.	Basic elements	Neoclassical model (Walrasian)	Neoliberal model (heterodox)
1.	Formulating policies to ensure the distribution of incomes.	They are drawn up starting from the market equilibrium and the evolution of marginal output.	They are determined by negotiating power between social and institutional structures.
2.	The calculation methods and the factors influencing labour density.	They care directly performed and their influence is automatic.	They care directly performed and their influence is automatic.
3.	The limits and constraints on initial employment.	They stem from and are determined by the way in which labour supply is formed and operates.	They stem from and are determined by the way in which labour supply is formed and operates.
4.	The characteristics of unemployment and the factors triggering long-term unemployment.	Natural unemployment is voluntary and reflects the rigidity of the labour market.	Unemployment is spread involuntarily and is recreated endogenously.
5.	The role of investments in the operation of the labour market.	It is given by the positive results of the capital market, through flexible rates of profitability.	They play an active, even determinant part through the level of income obtained, as an outcome of the rise of incomes.
6.	The influence of macroeconomic interventions and constraints.	It is applied on the short run, only as shock therapy so that the economy could be characterized by full employment.	The constraints imposed on demand are normal characteristics of aggregate economy.
7.	The influence of global competitiveness.	Irrelevant.	It affects the constraints imposed on demand.
8.	The impact of globalization.	The most efficient resource allocation factor.	It can have a positive of a negative influence on employment and on the restrictions on demand.

Source: Stanford, 2000, p. 247

Nowadays, neoliberalism is a trend in economic thought applied on a large scale, even if it has proved itself powerless in stopping the negative evolution of unemployment. The unprecedented stress on competition imposed on economic actors and national economies by the evolution of the global economy often leads to a waste of resources, particularly human resources, with severe effects on employment. Competitiveness is a sine-qua-non element for any field to withstand the whirlwind triggered by the fast-paced evolution of information society, and this has a strong influence on the rise of unemployment.

The precarious state of employment unveils the ineffectiveness of neoliberal policies in the labour market, which have led to the return of unemployment as the strongest perturbing factor of world economy. Consequently, at least at European level, current employment strategies outline the intention of decision-makers to revert, at least partially, to the objective of achieving a level of employment as close as possible to full employment.

As with any doctrine, economic neoliberalism has its positive and negative sides. The cyclical evolution of the economy calls for the constant improvement of economic theory, even if this calls for updating economic concepts applied in various times of global economy crisis. The labour market, severely affected by heightened globalization, is the first to send a signal to recall neoclassical models, where the concept of full employment plays a central part.

4. Neoliberalism in action - The impact of global economy and knowledge based economy on labour market

Globalization is viewed in terms of increased international integration of economic life, which involves a serious risk to trade and foreign investment directly connected to production. At the same time, it is considered that this phenomenon determines huge waves in the international financial transactions and in the growth of the global economic institutions (Sutcliffe, 2000, p. 325) as, for example, multinational corporations and international organizations, etc.

Many experts believe that this process, which is currently considered the highest level of development of the neoliberal doctrine, reduces the economic power of nation states. The approximately 40,000 multinational companies, observed by UNCTAD (United Nations Conference on Trade and Development), have about 12 million employees outside their countries of origin, which represents less than 1% of the world active population and less than 1% of the employed population. The labour market is particularly sensitive to any change in the functioning of the economic environment. Given the magnitude of the changes driven by globalization, the expansion of knowledge-based society and in recent years, by the global economic crisis, it is absolutely necessary to reconsider the significance of the labour market components on the new coordinates of economic development.

4.1 Recent developments in global economy

Globalization means the expansion of markets across borders, with the national state's role in a new light, both in terms of authority and that of its powers (Bulborea, 1999, p. 5-9). According to some authors, globalization is actually the manifestation of global capitalism, having as main pillars the transnational corporations and international institutions. Following other authors, globalization is the new world disorder. In fact, through globalization the reorganizing of the interstate relations is achieved and not the decrease of the state's role in contemporary life.

The process of globalization offers many countries great opportunities to exploit their own resources, enter new markets, and assimilate last generation technologies. This process cannot be stopped no matter the efforts made in this direction (Dăianu, 2002, pp. 29–31). Globalization eroded social cohesion and has led to manifestations of extreme severity like racism, xenophobia, chauvinism that may lead to conflicts and even civil wars both in poor regions and rich countries of the world (Ibidem, p. 33).

In the globalization context the individual’s daily life is strongly influenced by events that happen far away from his own environment. In an attempt to give a dimension the globalization phenomenon one needs to take into consideration the following elements (Stănescu, 2002, pp. 5–10): homogenization at regional and global level as a result of free and quick access to information (the best example is the expansion of the European Union); transformation of everyday life into a world of communication; space-time unification which is becoming a pronounced tendency; amplification of integration policies through political decision of the participating countries; emphasizing the human dimension of the sustainable development; widening of economic, technologic and informational gaps between rich and poor countries; consolidation of existing barriers between the rich and poor countries; inequality increase in the resource and wealth distribution and capital circulation etc.

These changes, whether positive or negative, occur both within each country and in international relations. In Drucker's view, the current world economy may be called a transnational economy. The author mentions four fundamental features, as follows ([1989] 1999, p. 110-111).

First, four economic entities are identified, which find themselves in a strong interdependence and may be considered partially dependent variables: the transnational society; global investment, monies and credit market, operating almost independently; national state and economic region (North America, EEC, etc.).

Second, the classical production factors have the tendency to transform into secondary factors being gradually overtaken by the derived factors (capital elements), which become primary.

Third, goods and services trade has little influence over the transnational economic pattern, and the control exerted by global specific economic institutions over national economies becomes stronger.

Fourth, the main objective of companies is to maximize distribution markets.

Also, we have to mention the lack of a transnational legal system and of institutions specialized on this high standard economy type. Emergence and establishment of the transnational ecology concept, as a result of the transgress character of problems related to the environment, which in their importance and impact go beyond the national frontiers and require a global approach and solution.

Society and the global economy is a product of the expansion of neoliberalism, which allows limited state intervention in economic life. The last decades are marked by acceleration in the pace of capital concentration (Brăileanu, 2001, pp 112-116). Thus, the five countries that dominated towards the end of 2000 over 90% of the global economy (UK, Germany, France, USA and Japan) produced 26.3% of world GDP in the year 1998; being at the same time countries of origin for more than 90 % of major transnational corporations.

From the perspective of the GDP, the ranking made by Toure (2010) places the U.S. first, followed by Japan, China, Germany, France, United Kingdom, Italy, Russia, Spain and Brazil. These ranking changes dramatically when it is done in terms of Economic Growth Rate, the highest value being recorded by China (9.8%), followed by Russia (6.0%), Brazil (5.2%), Germany (1.7%), USA (1.4%), Spain (1.3%), United Kingdom (1.1%), France (0.9%), Japan (0.7%) and Italy (0.08%).

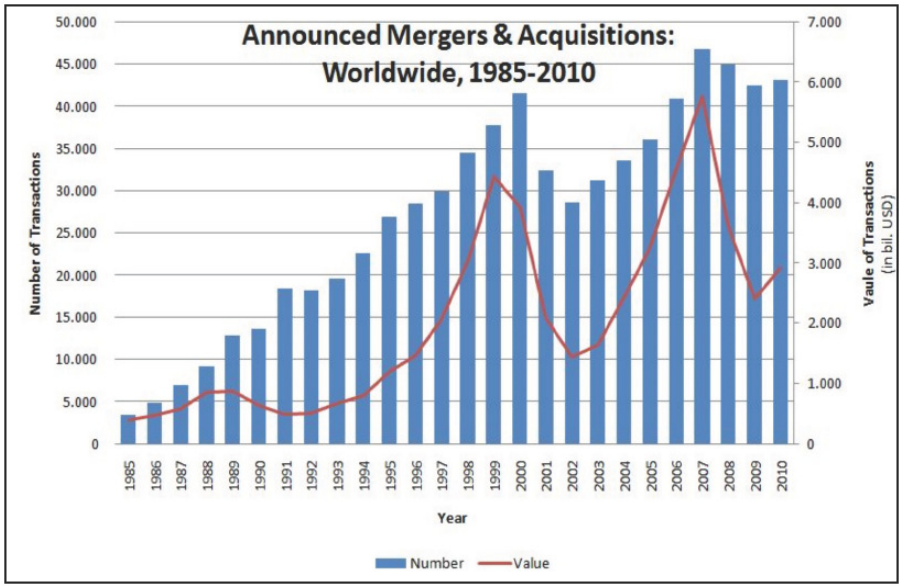

Figure 4.1 **Volume and value of mergers and acquisitions between 1985 and 2010**
Source: http://www.imaa-institute.org/statistics-mergers-acquisitions.html#TopMergersAcquisitions_Worldwide. Accessed on March 2011

In recent years two trends may be noted that characterize the world economy. The first is *the acceleration of great mergers*. For example, Deutsche Bank and Dresdner Bank form now one of the largest banking entities in the world, if we take into account the acquisition of Dresdner Bank's Global Agency Securities Lending business by Deutsche Bank, conducted in mid-2009 (Deutsche Bank Media, 2009).

Or, America Online (AOL) and Time Warner have formed the world's largest media company in the period between early 2000 and December 2009 (when a spin-off occurred, ending the relationship between the two companies). This merger, negotiated at the amount of $ 350 billion, is still considered the largest in the U.S. economy (Arango, 2010).

According to statistics provided by the Institute of Mergers, Alliances and Acquisitions, over the past 25 years, the volume and value of mergers and acquisitions has grown tremendously, both in terms of number of transactions and that of their value (see Figure 4.1).

The analysis of the distribution on countries' development levels of merger and acquisition transactions value (Figure 4.2) highlights the trend of increasing importance of developing countries as investment and business destination of large transnational corporations.

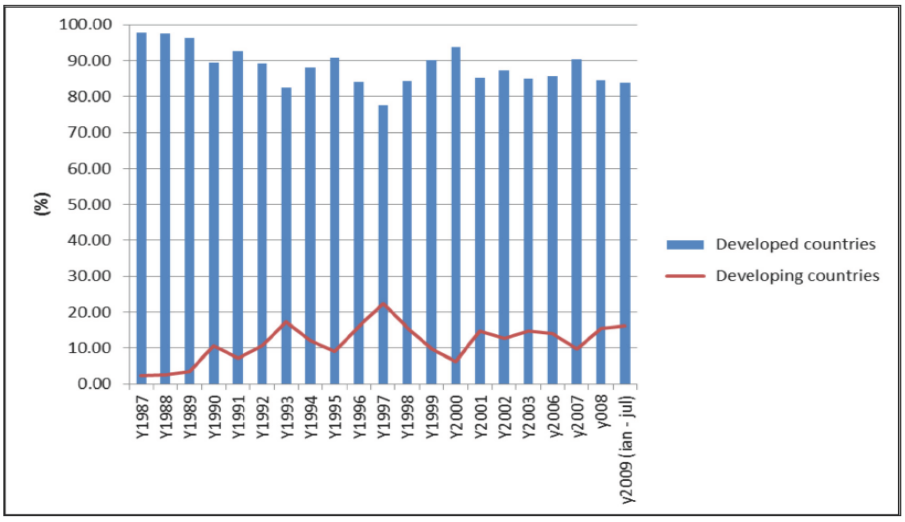

Figure 4.2 **Evolution of the distribution of mergers and acquisitions on countries' development levels**

Source: Calculations Based on UnctadDataStat

However, it is important to emphasize that the average value of transactions in the group of developing countries is kept well below the value recorded in developed countries, but also below the global average (Table 4.1).

Another important aspect to be noted is the European Union strengthened position, which recorded an average annual increase rate of the transactions' average value 5.17% compared to 3.41% the average of developed countries and 3.57% for the US.

The second trend, that manifested itself in recent decades, has shown a fast growth, sometimes out of control, of the financial speculation volume. The dramatic effects of this trend occurred with the outbreak of the economic crisis in late 2007 and early 2008. It is no longer a secret that the crisis triggering factor

manifested itself on the financial market as a result of the export to this sector of the unfortunate decision non performing activities on the real estate market in the US.

Table 4.1 **Average value of M&A sales by region (1990-2010)* January-May**

- millions USD -

Region	**1990**	**1995**	**2000**	**2005**	**2010***
World	48	33	144	92	69
Developed economy	46	38	168	106	87
Europe	41	29	163	140	101
European Union	40	29	174	145	103
North America	50	56	199	67	86
Developing economies	76	12	49	60	47

Source: Own calculations based on UNCTAD data.
http://www.unctad.org/Templates/Page.asp?intItemID=5823&lang=1. *Accessed on March 2011*

The impact on the real economy was as much stronger as the specific interconnections of the financial sector have increased in size and have expanded even more globally (Zirra, 2010, pp. 175-176). The propagation speed of the crisis from the local starting point to the global level was very high, as it covered all segments of economy in less than a year.

Today, taking into account all the changes produced in the world economy, the change management has a particularly difficult task if we take into account the three large levels it has to cover local, regional and worldwide and if we consider that *science represents the main drive of today's changes. Today's society*, that we all are a part of, is a *knowledge society* based on three main directions, namely innovation, entrepreneurship and continuous training (Brăileanu, 2001, p. 108). The internet represents one reason for this evolution, because it caused a real economical and technological revolution of a magnitude so great that experts cannot yet determine its real size.

Among the beneficial effects of the Internet economy the following can be mentioned: increased productivity, reduced use of machinery and equipment costs, increased investment volume, the inflation being kept relatively under control, increased propagation speed of technical progress, easier access to information and knowledge, etc. As a negative impact of the Internet economy strong disturbances in the economic and social environment, which generated a true economical and technological revolution can be mentioned (Zirra, 2008). It can be said that those who know more are stronger than those uninformed, and in the knowledge economy, information is the real capital.

Finally, emphasis should be made upon the technological and knowledge gap between rich and poor regions, due to both a low level of internet accessibility and the low innovative activities. Data on the level of economic development based on knowledge provided by the World Bank highlights the growing of the severe gap between the richest and the poorest countries, one of the most significant increases occurring in the field of ICT (see Table 4.2).

Table 4.2. **Development gap between the rich countries and the very poor ones (%)**

Year	**KEI**	**KI**	**EIR**	**INN**	**EDU**	**ICT**
1995	-66.11	-64.03	-72.80	-69.69	-75.91	-47.33
2009	-75.70	-76.14	-74.44	-72.06	-78.45	-78.38

Source: *Own calculations based on World Bank Data*

Note:
KEI - Knowledge Economy Index
KI – Knowledge Index
EIR – Economic Incentive Regime
INN – Innovation
EDU – Education
ICT – Information Communication Technology

Methodological note (*Source*: www.worldbank.org**):**

„*The KAM Knowledge Index (KI) measures a country's ability to generate, adopt and diffuse knowledge. This is an indication of overall* ***potential*** *of knowledge development in a given country. Methodologically, the KI is the simple average of the normalized performance scores of a country or region on the key variables in three.*

Knowledge Economy pillars – education and human resources, the innovation system and information and communication technology (ICT).

The Knowledge Economy Index (KEI) takes into account whether the environment is conducive for knowledge to be ***used effectively*** *for economic development. It is an aggregate index that represents the overall level of development of a country or region towards the Knowledge Economy.*

The KEI is calculated based on the average of the normalized performance scores of a country or region on all 4 pillars related to the knowledge economy - economic incentive and institutional regime, education and human resources, the innovation system and ICT."

Regarding the education system as a factor in the knowledge economy, a slight widening in the already deep gap can be noticed (from 75.91% to 78.45%). The increasing costs of education and living in general, together with the technological and informational pressure exerted by the emergence of the new economy, impose on *the educational system to align with these orientations*, in order to be able to meet the growing needs of the contemporary society, oriented towards increasing the level of economic performance and social responsibility as a whole (Drucker, [1989] 1999, pp. 224–229).

Thus, as the level of knowledge and skills required for any type of activity keeps getting higher, the individuals first must learn how to learn, as this type of society requires a continuous training throughout life. In the information society, another name used for the knowledge society, the emphasis should be shifted from correcting individual weaknesses to strengthen the areas where the individual shows real talent and a special skill.

Education must also comply with *new requirements*. The most important include (Ibidem, p. 233-242): access to good jobs due to individuals' talent and determination on achieving high performance; lifelong professional training; ensure equal opportunities regarding access to education; increasing employers' involvement in the educational processes; increased employee flexibility and adaptability through training; promoting the importance of individual study and shifting *educators'* efforts towards guiding the youth to areas of activity where they have special skills, etc.

4.2 Global economy effects over the labour market

Generally speaking, the effects of the global economy are extremely diverse and difficult to predict. What can be said with certainty is that they have already reached all areas of economic and social life. *If the global economy would be achieved through an open and mutually beneficial partnership among all participants, this way of organizing the economy might be the solution to the global problems of mankind*

(Zirra, 2003b, p. 525). Technological development will continue to further decentralize the whole economic and social field (Brăileanu, 2001, pp 140-142).

Because of the Internet economy, the share of self-employed activities will increase in a detrimental manner towards the wage related activities, with direct effect on the growth of the labour market fluidity. Thus, the current labour market situation will force professional competence to become more important than the continuity of employment at a workplace or on a contract basis. Another development that occurs on the labour market is unprecedented growth in the number of employment contracts on pre determined periods of time.

Only in France there are around one million jobs created in the communication industry, but the employment contracts are between 15 days and a year. At the same the number of work-at-home or at the client's office positions are on the rise. Because of these issues the traditional work contracts have become obsolete. The new contracts , which are more and more used, are called "*talent contracts*", *"flexible contracts*" or "*mobility contracts*" etc.

However, despite the progress imposed by the knowledge economy and the information society in all aspects and levels of the economy, it is noted that work security is seriously threatened, which requires a legislative negotiation for a new work statute suitable for the emerged environment.

In the late 1970s, Milton Friedman said that "*in recent years, educational performance has lost its glory*", permanently reducing the quality of education, against the backdrop of uncertainty and insecurity (Friedman & Friedman, [1979] 1998, p. 121). He sees that a more acute problem is that *graduates* of different learning modules, particularly at college level, *are not sufficiently prepared for life*. According to Friedman, *the cause* of this unfavourable development is *the increased government role in education*, saying that the created atmosphere is not beneficial for the learning process.

Another aspect would be that *the American higher education system* is characterized by two major *shortcomings*. One of them being *quality,* as universities is not able to provide the minimum training desired by students. From Friedman's perspective this is due to the low level of taxes. The other one being *equity,* as the government's role should be reduced to higher education funding in order to promote equal educational opportunities (Ibidem, p. 141).

In contemporary society, unlike the period analyzed by Friedman, both *organizations* and *individuals* should be able to implement a balanced self-renewal. This ability, according to Stephen R. Covey's concept, must be declared on four levels, namely physical, spiritual, mental and, last but not least, socio-emotional (Covey, [1989] 1998, pp. 286-288). The elements mentioned by Covey state, in reality, the existence of a society inaccessible to the average human being. The horizon towards which the knowledge society is headed turns out to be more pessimistic than optimistic. *People* today must *constantly evolve*, at a rate much higher than it was necessary a few decades ago. Individuals *must go through an evolutionary spiral to levels ever higher*, passing successively through the stages of learning, engagement and action at a growing stage (Ibidem, p. 290).

In the economic literature one can find new concepts related to *human performance improvement*, describing the factors that influence it and also the training of the *competent practitioner* (Rothwell et. al, 2000, pp. 3–6). Thus, the factors currently determining and influencing the human performance derive from the following sources: information barriers; employers' performance expectations; individual's capacity in work performance; workplace resources; workplace characteristics and so on.

Therefore, *improving human performance* should be characterized by a number of *features* (Ibidem, p. 9): systematic; systemic; based on the most complete information available (a difficult task taking into account the fact that information appears at a high speed pace); open to innovation implementation in the specific field (relative to real economic development); focused on performance and value systems.

We need to add that the processes aimed at developing and enhancing labour performance should be designed and implemented through the cost-effect ratio in order to allow financial and non financial result evaluation (Zirra, 2008).

Despite the globalization euphoria a slowdown of positive economic evolution is observed at the level of the world's strongest states after 2001. The employment problem remains difficult to solve. In the late 1990's unemployment has rebound strongly, being in the spotlight of many European countries, and not only theirs, even if 70%-80% was structural unemployment (Brăileanu, 2001, pp. 140–166). If we look at labour market evolution after 2008, we find the values of the unemployment rate somewhere under 10% in developed countries and over 10% in most developing or in transition economy countries, due to the sharp decrease of the economic growth rate (UN, January 2011).

In the last decade of last century, some publications appreciated (Martin & Schuman, [1996] 1999, p. 175-177) that globalization is a "*global short-circuit*", which started in the late 1940s, with the signing by the U.S. and Western European countries of the General Agreement on Tariffs and Trade (GATT), which has as a successor the WTO (World Trade Organization, 1994), headquartered in Geneva. Trade without barriers or with symbolic ones, has developed dramatically, exceeding more than twice the volume of global production.

Until the 1970s, most industrialized countries of the world applied the Keynesian doctrine in economics, according to which the state is the one who had to take action to correct inflation and unemployment phenomena. With the end of the seventh decade, of the twentieth century, Great Britain and the U.S. have adopted the neoliberal economic doctrine, so that the state was transformed from a primarily financial investor, into the *mere guardian of order*, abolishing most of the levers of government intervention. Following this process, economic strategies have been built on three main pillars, namely: market deregulation; liberalization of capital and currency circulation; privatization of most areas of activity.

In this way the major transnational corporations were formed, which took over parts of increasingly larger global market. Currently there are many economic giants, operating in dozens or even hundreds of countries around the world. Globalization is a phenomenon that causes profound transformations, particularly in institutional terms, as a result of the need to evolve into a new stage of economic development, where the economic relations do not know borders, and organizations do not have a nationality (Korten, 1995, p. 141).

According to other authors (Martin & Schuman, [1996] 1999, p. 180) the economic strategies of transnational companies function on the following principles:

1. Development of production performance in countries with the cheapest workforce and minimal manufacturing costs;
2. Selling goods and services in the richest regions, or where rates and charges are maximum;
3. Transferring profits in countries where taxation is milder.

In such a production process, conducted at global level, one can say that the workforce in all countries competes for employment offered worldwide; contributing to the economic growth that does not create additional jobs ("*jobless-growth*"). The major objective of large corporations is to increase shareholder profit ("*shareholder value"*).

Consequently, the "rush" for profit and maximized efficiency reached the level of an Olympic sport, which means *everything for the owners and almost nothing for the employed labour force*. To achieve their objectives the transnational companies, are increasingly turning to more and more mergers or *joint-venture* type alliances, which often have unpredictable effects on employment levels because of the rising of "*transnational dependency*".

As a result of globalization expansion many of the concepts related to business characteristics have changed. Thus, when considering how "*interesting*" companies are *the social capital* is associated with some national economy features, as for example *countries' legal and institutional framework*, *governance quality and business environment attractiveness* (Coyle, 2000, p. 104). Looked upon as a whole we find that economy is now characterized by 20% of the working population employed in industry, 5% in agriculture and the remaining 75% in the services sector (Korten, 1999, p. 74).

Another effect of globalization is the elimination of competition by the transnational giants through goods standardization and atrophy of the national characteristics in production processes and services (Ibidem, p. 133). Also, due to the accelerated growth imposed by improvement and use of information technology, the methods by which decision-making processes take place have changed, so that employees are trained to an extent greater than ever in the mechanism of decision making at all levels (Toffler, 1983, p. 119).

There are also more radical authors in terms of expressing opinions about the impact of economic globalization. Thus, one of the mentioned phenomena (Angelsdorf, 1999, p. 199) is multiplying and increasing financial power and influence of nongovernmental organizations, which operate by their own rules (they are independent and, not infrequently, are meant to exert pressure on some economic areas, or even on the type of policies adopted in countries where they operate).

The author believes that sometimes these organizations become dangerous, since they promote the theory that *the world must be led by a world government*, accountable to its own interests. It is known that transnational giants carry out their activities in various fields (scientific research, development technological, business, health, culture, education, labour relations, environmental protection, etc.).

If we look at developments from a different angle, the structures of the transnational companies are highly mobile, allowing them to operate in different geographical areas as long as they can maximize their profits. When environmental conditions, in which they work, change, affecting the company's objectives, they close their branches, worsening the economic situation of those regions (Bauman, [1998] 1999, p. 13), through the occurrence of the crowding out effect. Employees, who have the necessary strength (mental, financial, emotional, etc.), follow the company, otherwise they will be doomed to increase the number of unemployed in the area, with negative effects on both their existence and their families and local government budgets.

Table 4.3. **The percentage of GDP contributed by each sector, estimated for 2007 (%)**

Country	**Specific sector**		
	Services	**Manufacturing**	**Agriculture**
USA	78.5	20.6	0.9
China	39.5	49.5	11.0
Japan	73.3	25.2	1.5
India	55.0	28.4	16.6
Germany	69.5	26.9	0.9
United Kingdom	75.5	23.6	0.9
Russia	56.3	39.1	4.6
France	77.3	20.7	2.0
Brazil	64.0	30.8	5.1
Italy	69.3	32.0	5.0

Source: http://www.economywatch.com/economies-in-top/

In the author's view, globalization excludes borders, states, nations, taxation, customs, social contracts, justice, rights (civil, public, environmental, labour or human), respectively the bodies / entities to regulate disputes. Bauman says that the logic of this phenomenon lays in the desire of the *great capital* to eradicate all the elements that hinder free enterprise. So by globalization and market liberalization, above all, free movement of capital is aimed.

Liberalization, promoted strongly by the neoliberal doctrine, is considered a central element of all current policies for a sustainable development, but also a condition that they are successful. In fact, excessive and extensive liberalization act together with sustainable development, one being not possible without the other, and this is the point of view underlying the strategies adopted by multilateral organizations that are part of the G8 countries (for example).

Despite the noble objectives displayed by the current architects of modern globalization and sustainable development, the only "objective" reached is sustainable poverty, which worsens amid the current global economic crisis. Under the current conditions, marked by profound social and economic imbalances, the most sensitive point is the human resources area. The state of world economic crisis is manifested in so-called ***"correlative crisis"*** with unemployment and inflation on leading positions (Sava, 1986, p. 88). Unemployment has reached alarming levels in many areas of the globe. The worst aspect is the fact that unemployment has become a mass scale phenomenon, together with long-term unemployment, and unprecedented increases among young graduates from various stages of training (Idem).

In the past 25 years, in the developed countries of Europe the following evolutions have been registered (Albu, 1998, p. 25): reducing the negative influence of inflation on economic development; increased unemployment, which became the main disruptive factor of national economies; reducing the growth rate of gross domestic product, etc.

In the countries of Central and Eastern Europe, during the 1990s, inflation and unemployment increased aggressively, seriously disturbing the economies of these countries and the development of domestic output. In fact, these developments have been noted in other parts of the world. The phenomenon of globalization, fuelled by neoliberal doctrines, follows its course. But its results beneficial to all countries are still to come. Hyper liberalism promoted under the guise of globalization, has created a brutal society (Albert, [1991] 1994, p. 118), where risk and uncertainty are currently reaching alarming levels.

4.3 Knowledge society and the trends in the field of labour

The field of labour is in a continuous transformation process. In all industries and professions there is *a real fear of job loss* environment (Martin & Schuman, [1996] 1999, p. 159), even in areas previously considered relatively safe (financial - banking, insurance, etc.) because of information explosion (caused by ultra high-speed access to next-generation communication technologies). "*Competition in a brutal global economy creates a global labour market. No job is safe anymore* "(Ibidem, p. 169).

Fact is that the way competitive mechanisms function now is much more aggressive than before the amplification of global economic integration. We must not forget that this process is the result of *neoliberal economic policies* used by the governments of industrialized countries.

German experts (Ibidem, pp. 171-174) have conducted a comparative analysis on the number of additional employees in European companies, compared with the U.S. in various areas (Table 4.4a and 4.4b). Based on this analysis, it appears that the U.S. job loss, as a result of globalization, is more

pronounced than in Europe. This profit rush of American companies has caused increasing unemployment and the risk of job loss in perspective (long term).

IT is an area that requires special attention. Transnational corporations, in this economy domain, reflect the best way the changes caused by global amplification of their activities. Progress in computer science research is much faster and work flexibility and mobility is more pronounced. Frequently, large corporations trade creative intelligence and capacity ("***brain – shopping"***). This has become particularly widespread in recent years.

Table 4.4a **Comparative analyses of employees in the U.S.A and Europe (*persons*)**

No.	**Finance (1995)**		**Telecommunications (1994)**	
	German and Austrian companies in comparison with Citicorp (USA)	Extra employees in relation to achieved productivity	Telekom (European branches) in comparison with Pacific Telesis (USA)	Extra employees in relation to achieved productivity
1.	Deutsche Bank	**31,067**	Deutsche Telekom	**92,736**
2.	Dresdner Bank	**26,673**	British Telecom	**45,988**
3.	Commerzbank	**14,940**	Telia Schweden	**12,443**
4.	Bayr. Vereinsbank	**7,975**	PTT Austria	**5,607**
5.	Bayr. Hypobank	**5,744**	EU	**322,102**
6.	Bank Austria	**1,953**	**-**	**-**
7.	CA – Bankverein	**1,175**	**-**	**-**

Source: Martin & Schuman, [1996] 1999, pp. 171–174

Table 4.4b **Comparative analyses of employees in the U.S.A and Europe (*persons*)**

No.	**Air Transport (1995)**		**Insurance (1994)**	
	European companies in comparison with United Airlines (USA)	Extra employees in relation to achieved productivity	European companies in Comparison with French companies	Extra employees in relation to achieved productivity
1.	Lufthansa	**21,842**	Germany	**104,294**
2.	British Airwais	**10,628**	UK	**90,985**
3.	Air France	**14,937**	Switzerland	**8,718**
4.	SAS	**10,344**	Austria	**20,719**
5.	Swissair	**7,209**	Sweden	**6,276**
6.	Austrian Airlines	**1,641**	EU	**345,210**
7.	AEA	**125,124**	-	**-**

Source: Martin & Schuman, [1996] 1999, pp. 171–174

Employees are well trained specialists, from countries with lower economic development level, who are paid much lower wages than local experts (Ibidem, pp. 163-164). As a result, on the labour market tension and discontent are created because the *massive import* of skilled labour force occurred *under the impact of the depreciation rate of knowledge growth* and the need to reduce the costs of efficient use of labour.

This has made finding a job in IT to become a problem in many parts of the world, especially in developed ones. Policies of "*brain-shopping*", adopted by companies like IBM and Hewlett-Packard in the U.S., namely Siemens-Nixdorf in Europe, which have employed foreign experts, have given rise to protests from local engineers.

Following the environment thus created, the U.S. government decided to issue visas for citizens from India only in special cases. But so far the measure has proved to be inefficient because the corporations

have decided to transfer work to India (relocation of the production process), and tens of thousands of specialists remained unemployed.

After 1990, Russia started to become a strong competitor for India, because IT specialists from Eastern and South Eastern Europe are considered to be hardworking, unpretentious and a lot cheaper (Ibidem, p. 165).

The penetration of modern technologies in an increasing number of households transforms many of the operations requiring the use of a diverse and numerous staff (in areas such as documentation, archiving, marketing, trade, banking and financial operations, relations with public administration, etc.) in almost immediately solved activities.

This evolution will make trades until now required, in the above mentioned areas, obsolete on the labour market, which will further aggravate the unemployment situation. With the introduction of the latest technological progress in most areas of activity, the managements of large corporations have decided to lower wages and extend working hours, by outsourcing part of the production processes (Ibidem, p. 185). Thus, in mid-1995, corporations were able to achieve increases in productivity and profits by drastically reducing the number of jobs, without giving the unions the possibility to strike back.

Then, employees were offered only part time contracts and the production capacity in subsidiaries was increased to a maximum. This has led some workers to become semi-employed, or semi-unemployed, and of fear of losing their jobs started working more hours without additional remuneration. In this case, globalization is a serious, unprecedented attack to human dignity and quality of life.

Another mutation in the concept of work, otherwise quite criticized, is the emergence of "just in time" type of work, commonly practiced by transnational companies (Ibidem, pp. 193-197). Because of this tendency, jobs have become extremely uncertain.

Certain types of activities (increasingly numerous) of the companies are subcontracted to small organizations, which *offer* their employees many responsibilities but few rights in relation to: health insurance, pension fund, wage rate increases, unions, improved working conditions, etc. It can be said that the development pace of contemporary society, based on knowledge, has increased notably due to the qualitative and quantitative leap of information technologies and communication.

Because of the unlimited access to information via the INTERNET, major changes in the way activities are carried out happen, such as (Preda, 2002, p. 196): increased workload to be carried out at employees' home, detrimental to the workload at company offices or their subsidiaries; hiring qualified personnel from all over the world; reducing company wage costs to the level of employees' origin countries, as the physical displacement of workforce is not required anymore ("*brain drain*"); reducing business administration costs through the facilities offered by the new information technologies (virtual conferencing, electronic signature, etc.).

The impact of new technology on employment can be schematized as shown in Figure 4.3 (Sloman, 2003, p.409), where:

(1) = design and implementation of new technologies, which increase employment through the need to increase the number of experts used in this stage, research-development;

(2) = implementation of new technologies, which reduces the number of employees within companies that have retooled production processes;

(3) = service and repair work until the normal operation of facilities and equipment is reached determines an increase in employee numbers, after which the number of employees is reduced again;

(4) = on long term, as the implementation of new technologies spreads (their market share grows), the number of employees will increase, with positive effects on employment in these sectors.

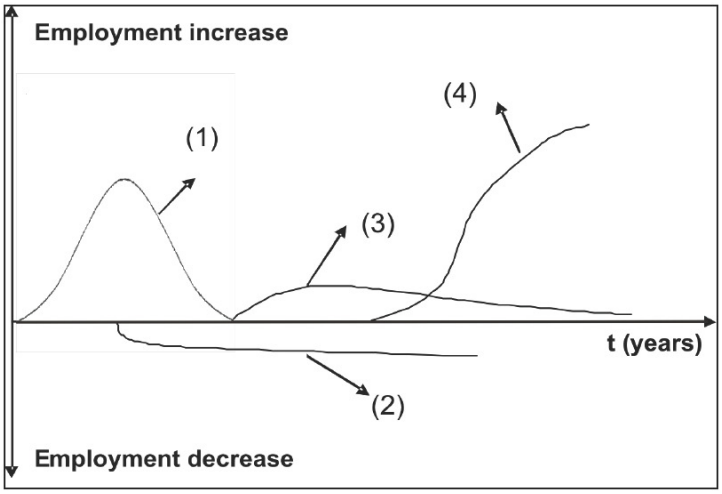

Figure 4.3 **The effects of new technologies on employment**
Source: *Sloman, 2003, p. 409*

In conclusion, the new economy is beneficial to human activity as a whole but at the same time, causes increasing economic and social instability, and sharpens the propagation velocity of negative global effects.

4.4 Employment and unemployment in global economy

In the last decades, until 2008, we can talk about an upward trend in economic growth but at the same time serious problems related to job loss and employment security have been noted.

Overall it is estimated that unemployment rates decreased before 2008 due to economic growth, although other sources (OECD) consider that the structural unemployment rate was at 10% even before the crisis (Brăileanu, 2001, p. 196). Analyzing the evolution of the number of jobs in work sectors worldwide, between 1980 and early 2000s, it is obvious that most new jobs were created in the tertiary (services) sector (Table 4.5).

Table 4.5 **Worldwide employment evolution on activity sectors, between 1980 and the beginning of 2000**

The Sector	Percentage increase (%)	Absolute growth (mil. persons)
Agriculture	+35	260.8
Industry	+17	128.0
Services	+48	353.6
TOTAL	100	743.3

Source: Adapted after *Yearbook of Labour Statistics, ILO, Apud Preda, 2002, pp. 174–182*

Apparently, the increase in jobs has been a favourable situation in the period analyzed. However, the global unemployment rate rose to reach values above 7% in the early 2000s, both as a result of policies in the globalize economy by big business (including promoting technical progress) and as a result of the economically active population rate growth, as seen in Table 4.6 (Turnham, 1993, p. 33-35).

Although the assessments are based on extrapolation of approximate information, they allow exploration of employment level, provide the necessary information needed to plan jobs, or making unemployment level forecasts. Given that the growth rate of the active population is much higher than the increase in the number of new jobs created, the unprecedented unemployment rate increase in most areas of the world is understandable.

But, unemployment is only part of the problems related to insufficient opportunities for creating new jobs. Another issue that has emerged in recent decades is poverty caused by unemployment or underemployment, although there are situations where the correlation between unemployment and poverty is not direct. For example, many poor people are too old, too sick or too young to work, so the low level of employment opportunities is only an indirect cause of their poverty.

Employment is a key factor and a central objective of any type of economic development, because unemployment is a waste of labour resources, and to achieve an income level considered acceptable for a decent life is a prerequisite for human development.

In developing countries, the need for absorption of young people in a large segment of employment is now a very pressing problem (Ibidem, pp. 241-242). In the past, expansion of urban informal sector succeeded, to some extent, to supplement the role of *employer* of agriculture, but now the rate of absorption of the available working-age population, particularly the young, is too low.

Table 4.6 **The evolution of active population number between 1955-2015***

No	**Region**	**Absolute growth (mil. people)**			**Growth index (%)**		**Annual growth rate (%**	
		1955	**1985**	**2015***	**1985/1955**	**2015*/1985**	**1955-1985**	**1985–2015**
1.	Developing countries, of which:	**892**	**1,630**	**2,822**	**182.74**	**173.13**	**2.0**	**1.8**
2.	Asia	658	1,186	1,922	180.24	162.06	2.0	1.6
3.	Middle East and North Africa	38	74	175	194.74	236.49	2.2	2.9
4.	Latin America	64	140	261	218.75	186.43	2.6	2.1
5.	Sub Saharan Africa	89	175	403	196.63	239.29	2.3	2.8
6.	Europe	43	55	61	127.91	110.91	0.8	0.4
7.	Total in developed countries	**250**	**357**	**395**	**142.80**	**110.64**	**1.2**	**0.3**
8.	Total in the rest of the countries	**124**	**173**	**204**	**139.52**	**117.92**	**1.1**	**0.6**
9.	Total on global level	**1,266**	**2,160**	**3,421**	**170.62**	**117.92**	**1.8**	**1.5**

Source: *International Labour Office and United Nations; * expected/predicted values.*

Many countries are faced with unprecedented challenges on the risk of mass unemployment among young people. Even if the current generations of political leaders have unlimited access to information

and know-how, regarding experience at the micro and macroeconomic level, which can help prevent the worsening conditions of employment and unemployment, progress remains limited.

Current manifestations of unemployment may be considered disturbing. As a result, they must be understood from different points of view:

- Occurrence of social and political rifts arising from mass unemployment; loss of confidence in public institutions in terms of reducing unemployment, which increases the uncertainties and disturbances with direct consequences for the future of businesses and communities;
- Poverty, poor living conditions, lack or inadequacy of resources in health care, education or the guarantee of human rights and self-esteem;
- Large number of employees earning only subsistence wages, without the chance to increase their welfare in the near future, which in turn seriously disturbs the precarious balance of the labour market;
- Labour migration from developing countries towards developed countries, which has negative effects on employment in destination countries social cohesion being threatened.

Based on these aspects, the employment issue can be addressed in various ways, either short or long term, or as part of macro or micro-economic policies, or on sectors, or groups of countries or geographical regions. But *policy makers do not want to admit that unemployment has reached dangerous levels*. Official unemployment statistics do not always reflect reality, and this is true even for developed countries like USA and Japan (Martin & Schuman, [1996] 1999, p. 197).

In recent years *workplaces have lost their well defined significance* due to market deregulation with an overbidding role of free competition. *Employment precariousness* is a serious phenomenon with disastrous consequences for ordinary people. *The implementation of neoliberal policies* at *global* level *project* turned the whole work system upside down (Ibidem, p. 215). Officially, the European governments are greatly concerned with unemployment decrease. Unofficially, promoting further liberalization of all major activity types does nothing else but to increase unemployment.

Equally, the economic crisis triggered profound transformation in the sphere of labour demand thus making the analysis of the factors determining recent evolutions and of the tendencies manifested in the employment field compulsory. As it can be noted, the economic crisis has revealed the existence of strong interdependencies in the global economy (Castles & Vezzoli, 2009, p. 69-74), with its first effect labour migration amplification.

Regarding this process that occurs on the labour market, we would like to mention some of the effects of short-term crisis, namely: some of the emigrants return to their countries of origin; decrease of labour migration; the authorities take measures on stimulating or even forcing the return of migrants to their countries of origin; increased hostility towards immigrants; drastic decrease of illegal labour force migration labour, etc. But it is still too early, too complex and too difficult to foresee the long term effects of the economic crisis on labour migration.

The current crisis is still spreading its negative effects, especially on labour market characteristic phenomena. However, another aspect can be mentioned with certainty. We have in mind the demographic aging of the population in developed countries together with the enormous developmental differences between geographical areas which are strong factors in continuing long-term work force migration.

We must not forget that in times of recession, economic motivation to migrate is even stronger than during development, namely economic and social prosperity. What will definitely change in the next period of time is how this global phenomenon of migration on the labour market is managed, as the need of a global form of governance is felt very strongly. Despite extensive disturbance caused by the current crisis, the neoliberal model of globalization continues its course unhindered.

Please note that this development continues to occur despite the fact that one of the major results of neoliberal economic policies implemented over the past three decades have resulted in an increased developmental gap between the developed countries and the world, or even between the most developed countries in some cases, and an increased supply of jobs requiring low-skilled and poorly paid staff, provided largely by emigrants, in an informal labour market, which is growing wider.

As specialists in the field have already noted we would like to mention that 30 years of applied economic neoliberalism has produced its effects in terms of widened inequalities, unnatural money transfers from the disadvantaged, poor strata towards the rich based on loose financial and monetary policies. A global crisis requires a package of remedies to be applied globally, and the rules used up till now have to be profoundly changed (Stiglitz, 2009, p. 3-9).

4.5 The relationship between professional training and employment

To improve the level of employment in the knowledge society one needs to pay greater attention to how the workforce is trained. The information flow is extremely diverse and dynamic requiring individuals to shape their personality in early stages of their development in order to be able to rapidly adapt to new situations and be competitive on the labour market. Many specialists develop research schemes in order to establish the skills required to increase the chances of finding the appropriate work place.

The following features (Covey, [1994] 2000, p. 336) should become the focal point in the educational process of the younger generation: adaptability, flexibility and spontaneity; good communication skills; able to work in a team; continuous desire to learn; self-confidence, etc. Education is a key factor in increasing the employment level, as it is the only means to form competitive labour resources.

Thus, the following components should be considered the base of developing and implementing a new coherent and efficient strategy in this area (Sandu & Munteanu, 2004, p. 14-19): teaching and learning a greater volume of new, fundamental information related to business, IT, linguistic, technology etc.; ensuring a direct and strong relationship between the skills required by the labour market and the ones taught and assimilated in the educational system; establishing a minimum level of learning correlated with the rate of information obsolescence in various activity areas; creating stimulating learning conditions in order to achieve a significant number of highly educated people (in many countries with a developing economy, as for example Romania , only slightly over 10% of the population has a high level of training, which is 50% or even less than the estimated level of European countries).

With global dynamics, becoming stronger and faster, continuous learning is the key to the future. From this perspective (Suciu et al., 2000, p. 27-30), full employability must take into account a variety of issues, among which we mention:

1. Increasing mobility of labour resources globally which makes continuing education, not only a cost element in the lives of individuals and companies, but also an element which emphasizes the ability of economic agents to operate profitably and competitively;
2. At individual level increase of drop outs from the educational system, transforming them in a burden to others and the society in general, as they lack the skills and qualifications required by the labour market.
3. Reaction to change, termed as "***learning to maintain***" or "***learning shock***", which does not guarantee that labour resources are fully capable of adapting to global dynamics, putting in doubt the achievement of a sufficiently high level of employment in order to keep unemployment under control;

4. Shifting focus from reactive area to the prospective one, through "***innovative learning***", which leads to major changes throughout the educational system (infrastructure, techniques, methodology, training, etc.).

At this stage of economic development the research in the field is a key condition to increase employment level and company, product and services competitiveness. The capacity to invest in innovation increase and learning becomes the basis for a sustainable development (an intermediate link between economy of goods and knowledge economy) able to ensure high levels of employment. Thus an environment of competitiveness and productivity growth is achieved (Sandu, et al., 2003, p. 27).

At the current stage of economic development, investment in human capital issues must be dealt with in an interdisciplinary way, both theoretically and methodologically and in terms of strategic and operational view. Training and employment issues cannot be considered and addressed only on short term, as a reaction to changes imposed by economic and social dynamics. In the knowledge society, these problems are treated with emphasis on medium and long term time periods, in a proactive and prospective vision (Suciu et al., 2000, pp. 22-23). Human resources must adapt, participate and be flexible to all occurring changes in order to effectively solve the employment problem.

At European level, there is a significant gap between the scientific and technological performance, with negative effects on the labour market. The main reason for this situation, which is a paradox, is the weak link between science and industrial activity.

This gap with a major impact over employment could be reduced through some (Sandu, et al., 2003, pp. 31-34) well defined measures such as: creating performance structures in innovative company; improve the collaboration between the educational system and industry; improve the interface between scientific research and technological development; emphasize the multinational companies' role as promoters of technological progress; increase the capacity of research-development structures to disseminate their results; strengthen the links between companies, research and market etc.

Nowadays risk and uncertainty are part of daily existence in all its aspects. Therefore it is only natural to take these two elements as key factors when assessing the investment efficiency in human capital. The demand for education is based on two main aspects. On one hand the individual's desire to continue education and on the other hand the tendency to reduce the risks of human capital investment. These aspects are taken into consideration at individual level and also at businesses or private, public institutions' level. The individuals have as goal income maximization and the economic agents profit as human resources quality increases.

From this perspective a fundamental element is represented by the *„optimal time period allocated for education"* (Groot & Osterbeek, 1992, pp. 41–49). The mathematical formula of this information is:

$$\max_D v = \int_D^T w(D)\cdot e^{-a\cdot t}dt - \int_0^D c\cdot e^{-a\cdot t}dt \quad \text{or} \quad \max_D v = \frac{w(D)\cdot(1-e^{-a(T-D)})\cdot e^{-a\cdot D} - c\cdot(1-e^{-a\cdot D})}{a} \tag{1}$$

Where:

v = potential income of a person over his active life;

D = education time period;

$w(D)$ = possible income after studies;

c = studies costs;

a = annual discount rate.

To determine the optimal duration of studies the partial derivative of the income function is calculated in relation to D and equalled with 0:

$$\frac{dv}{dD} = 0 \quad , \tag{2}$$

Resulting in the following relation:

$$c + w(D) = a^{-1} \cdot \frac{dw(D)}{dD} \tag{3}$$

When is evaluated the decision to invest in education, are also taken into account the increase of income level reached through education and training, improving the opportunities to find or hold a job and the likelihood of finding an acceptable job in terms of individual income. By the early 1990s, the demand for education was analyzed as a whole.

In recent years, demand for education is considered segmented individuals, each individual item (Suciu et al., 2000, pp. 50-51): persons in the educational system; graduates as new comers on the labour market who do not fulfil the educational requirements so they bounce back to different training programs in order to increase their employability; employed population, seeking training programs to increase their own level of education; unemployed that need to retrain; elderly who either wish to increase their chances in finding employment or want to keep an *"active state"* as long as possible.

Individual skills should play an important role in the professional training for highly performing positions, if the place and role of labour resources are taken into account. According to studies conducted in this area (McCormick & Tiffin) there are many variables that influence work performance at the same level as environment, training and education. These variables find themselves in two major categories: individual variables and situational variables (Pitariu, 1994, p. 20). Among individual variables are: personality type; physical, intellectual and psychological abilities; innate skills; interests, motivations and value systems; age and sex (sometimes religion); educational and cultural level; work experience and so on.

The Situational variables are on their turn divided into physical and work variables (technology, work equipments, work and work place organization, work conditions, specific work processes etc.) and organizational and social variables (work and social environment, wage and compensation schemes, monitoring and control systems, training policies, in company policies etc.).

These variables increasingly influence job search, the chances to find an acceptable and satisfactory work place in terms of wages, work environment and employer's conditions and requirements. *Equal opportunity is a principle of liberal inspiration, now widely promoted by international institutions.*

But the practice of this principle in the knowledge society is increasingly difficult, as it overwhelmingly depends on the correlation between individuals' personal life and their families, on one hand, and the willingness to invest in a particular type of training or in the increase of the educational level on the other hand.

A very serious issue in contemporary society is represented by the impoverished individuals through income precariousness, which imposed a decline in living standards and a worsening of the financial situation. The main consequence of this situation is an increase in school drop outs, with serious effects on young people's chances in finding a job opportunity.

School dropout may be considered a deviant behavior of young people who find it hard to integrate in a group or cannot adapt to the current labour market requirements, or may be considered as an effect of population impoverishment that has been going on for the past two decades. This situation is serious because of the risks the young people are subjected to (loitering, drugs abuse, prostitution, alcohol, violence, crime etc.) and also because of the society's capacity to train highly qualified specialists with negative effects on future development (Petre, et al., 2002, pp. 307–308).

In Romania, for example, school dropout has two main features: an increasing trend of leaving the educational system too early and an increased number of those not following a higher level of education, thus finding employment becomes a difficult task. We must not forget that improving the labour market

flexibility in order to increase employment level depends on how human resources develop and are managed. Taking into account the current evolution of the informational society we may say that labour market qualitative and functional flexibility involves staff mobility and multiple qualification, together with work place reorganization according to the technological evolutions through "*redefinition and rationing*" (Suciu et al., 2000, p. 90).

Friedman said that not all schooling is education and that when each family will be able to finance children's education, access to any kind of education will be guaranteed, while ensuring "*equality of opportunity in education* '(Friedman & Friedman, [1979] 1998, p. 151). Friedman's idea is less utopian, taking into account the decrease in income worldwide and the information explosion of recent decades. Also, the educational horizon must be built according to present requirements and future development of science and technology, not by the individual desires of the beneficiaries and participants in the educational system.

Therefore, the role of education in enhancing employment opportunity and in achieving economic growth is of key importance (Hansen, 1970, p. 115). Aggregate production function in neoclassical view has the following form:

$$Y = F(X_1, X_2, ..., X_m) \quad (4)$$

Where:

- Y is the aggregate production volume;
- X_i, with i from *1* to m, represent inputs, without the influence of education over economic growth to be analyzed.

Griliches & Jorgensen suggests two ways in which an aggregate production function could include education (1967, p. 249-283):

$$Y = F(K, H, N) \text{ and } Y = F(K, E \cdot N), \quad (5)$$

Where:

K = physical capital;
H = human capital;
N = number of employees;
$E \cdot N$ = adjusted labour quality;
E = multiplier of labour quality increase through educational level increase (median work productivity multiplier).

This model could include other elements too, related to the time spent by individuals in different professional training modules, quality of the educational system, the correlation between the educational system and profession in demand on the labour market, the share of professional training in the productive activities of a company etc.

In conclusion, due to neoliberal policies implemented worldwide in recent decades, as a consolidation of the information society, it is necessary to mention some trends that currently exist and which have had an impact on employment. First of all obtaining benefits through company reengineering in terms of technological exploitation of information has accelerated, secondly because of unrestricted access to global information there is an emphasis on the importance of business improvement, operation costs and risks reduction, and finally to these trends we may add the increase of available capital funds and their transfer according to the companies' interests regarding business expansion.

The above mentioned trends have profound implications on the workforce. Thus, there is a constant requirement increase regarding skills and competences on the labour market, in an environment where technological progress is continuous. At the same time the work force becomes more educated and diverse, contributing at the formation of elites in many areas of activity. Because of the ruthless competition for good paying jobs employees work more hours during the week and their days off,

affecting their health and family stability. So from the perspective of today's employees, in a narrow sense, and the global human resources, in general sense, the individual has many more responsibilities than in the past regarding his own development.

5. Quantitative assessment of the globalization influence on the labour market

The problematic of economic growth represented and still represents the central element of numerous studies and researches, even more as the last decades have been strongly influenced by the intensification of globalization.

5.1 Foreign direct investments, globalization factor

The analysis of the globalization index evolution in the period 1970 – 2008 highlights five distinct clusters (Figure 5.1).

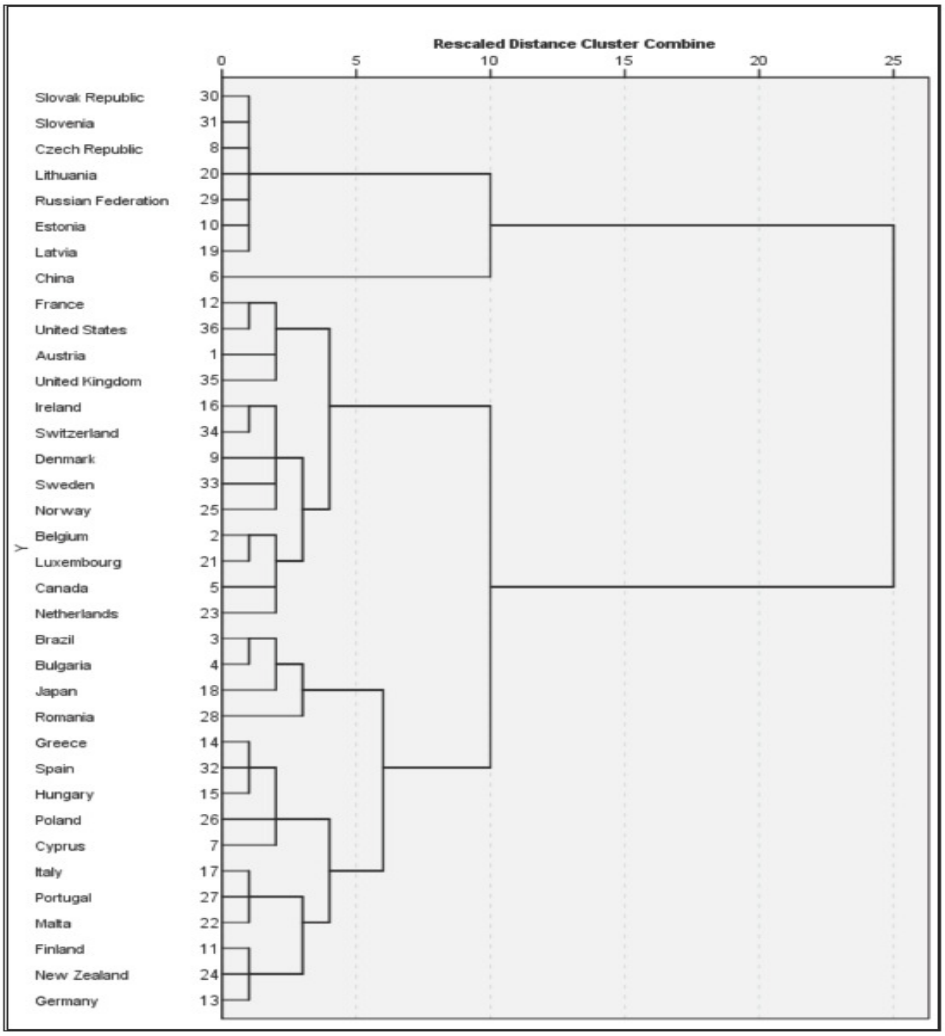

Figure 5.1 **Dendogram of globalization index for selected countries 1970 - 2008 using average linkage (between groups)**

Source: own calculations using The KOF Globalization Index (http://globalization.kof.ethz.ch/) *and IBM SPSS Statistics Data Editor 19*

The first cluster includes Slovakia, Slovenia, the Czech Republic, Lithuania, Russia, Estonia and Russia, result somehow anticipated, considering that all these countries emerged as independent economies only after 1990, with the fall of the Iron Curtain.

The second nucleus indicated by the cluster analysis is constituted of the strongly industrialized economies: France, USA, Austria, Great Britain, Ireland, Switzerland, Denmark, Sweden, Norway, Belgium, Luxemburg, Canada and the Netherlands.

The third cluster, formed of only 4 countries (Brazil, Bulgaria, Romania and Japan) illustrates certain deficiencies of the globalization index, to the extent to which it joins countries in stage 2 of development (Brazil, Bulgaria and Romania) with one of the most developed economies– Japan.

The explanation is given by the Japanese organizational behavior and the low level of openness towards internationalization and globalization of this economy; according to the Global Competitiveness Report 2010-2011 (p. 475), of the 139 countries analyzed, Japan places 138th from the perspective of the weight of imports of goods and services in the GDP and 129th from the viewpoint of weight of exports of goods and services in the GDP. According to the World Economic Forum experts, depending on the GDP/capita, we can make the distinction between three main stages and two intermediary stages of economic development, as we can see in Table 5.1.

Table 5.1 **Income thresholds for establishing stages of development**

Stage of development	**GDP per capita (USD)**
Stage 1: Factor driven	< 2,000
Transition from stage 1 to stage 2	2,000 – 3,000
Stage 2: Efficiency driven	3,000 – 9,000
Transition from stage 2 to stage 3	9,000 – 17,000
Stage 3: Innovation driven	>17,000

Source: Global Competitiveness Report 2010 – 2011, p. 10

The last two clusters are made up of Greece, Spain, Hungary, Poland and Cyprus, respectively Italia, Portugal, Malta, Finland, New Zeeland and Germany, countries also in different economic development stages.

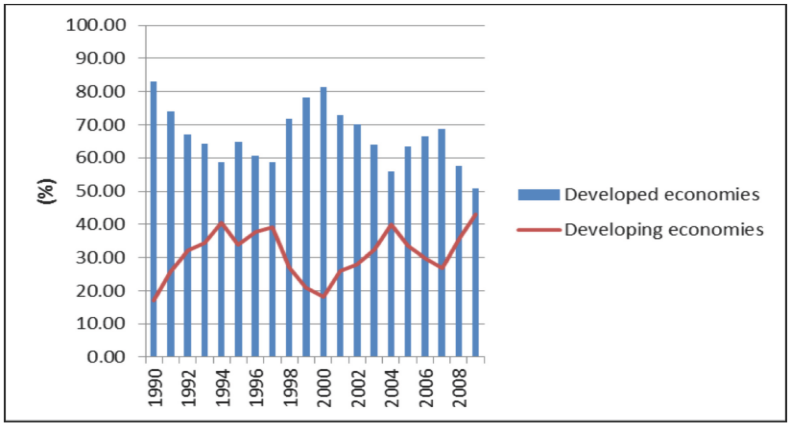

Figure 5.2 **Distribution of the FDI flows' weight on large groups of countries**

Source: own calculations based on UNCTAD DataStat

One of the most important globalization factors were, as subsequently shown, the intensification of the investment activities of the large transnational corporations, materialized either through mergers and acquisitions, or through Greenfield investments.

The analysis of the distribution of the investment flows received during the period 1990–2009 indicates an oscillatory evolution of the investors' preferences for the developing countries, the most drastic decrease being registered in year 2000, when the weight held by this group was of merely 18.3%.

The effects of the economic crisis started in 2007 on the investment activity were felt first at the level of the developed countries, the reduction of the DFI inflows volume being approximately 30% in 2008, while the developing countries recorded an increase of 11.5%. Year 2009 underlines the consolidation of the imbalances associated with the crisis and brings forth another significant reduction of the investment activity dimensions (Table 5.2), both among developed countries, and in the developing ones.

Table 5.2 **The pace of FDI inflows evolution on the main groups of countries (%)**

Countries	2008/2007	2009/2008	2009/2007
Developed economies	11.52	-37.08	-46.94
Developing economies	-29.49	-44.43	-60.81
World	-15.67	-37.08	-46.94

Source: own calculations based on UNCTAD DataStat

Overall, for the developed countries, during the last two decades, the main destination of the investment flows was represented by the European Union (Figure 5.3), which registered weights between 52.16% (minimum of the period analyzed, in 1997) and 80.42% in 2005 (maximum).

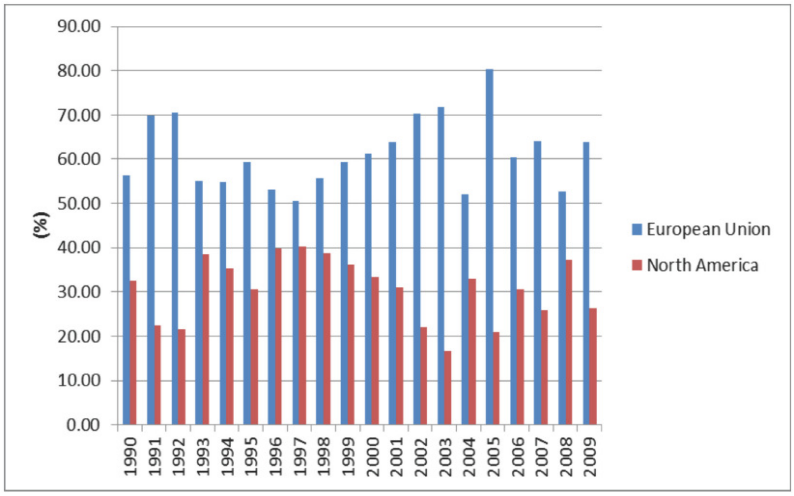

Figure 5.3 **Assignment of investment flows entering the developed countries, by regions**

Source: own calculations based on UNCTAD DataStat

In the first part of the period analyzed, at the European Union level, the distribution of the investment flows was predominantly directed towards the nucleus made up of the United Kingdom, France, Germany and Netherlands (the value of the concentration index being at approximately 40% in year 1990). Parallel to the European Union expansion process, a movement of the investors' interest towards the new Member States also occurred, such as the concentration level decreased to 30%.

The developed countries continue to represent the main source of investment capital, although starting with year 2003 their weight reduced from 95.07 % to 74.54 % (Figure 5.4), from their entirety, the European Union constantly achieving contributions between 35% (in 2009) and 69% (in 2005).

From the perspective of FDI's impact on the labour market, two main categories of effects can be identified: the technical endowment of labour as expression of the modification of the labour conditions and with a major influence on labour productivity, respectively the modification of the labour demand structure (emergence and disappearance of occupations and/or modification of training requirements in relation to the workplace).

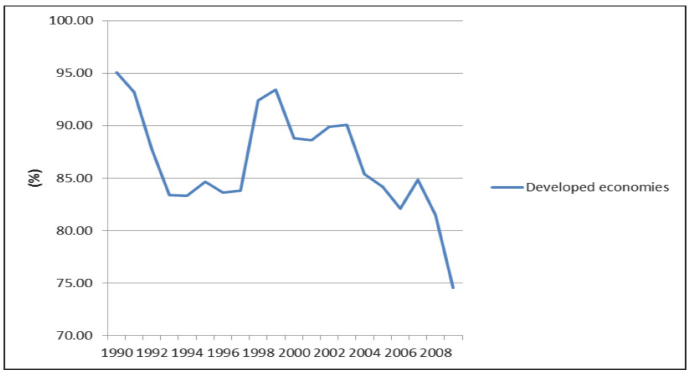

Figure 5.4 **Developed countries share in total investment capital sources**
Source: own calculations based on UNCTAD DataStat

A high interest area in the world economics of the last two decades is represented by the South East Europe and CIS countries, on the one hand due to the European Union's expansion process, and on the other hand, due to the increase of the regional importance of the emerging economies of the former Soviet Union. The statistical data indicate a dramatic change of destination of the received investment flows (inflows) starting with year 1992 (Figure 5.5), year which marks the beginning of liberalization of the ex-soviet space economy and the emergence of new independent states.

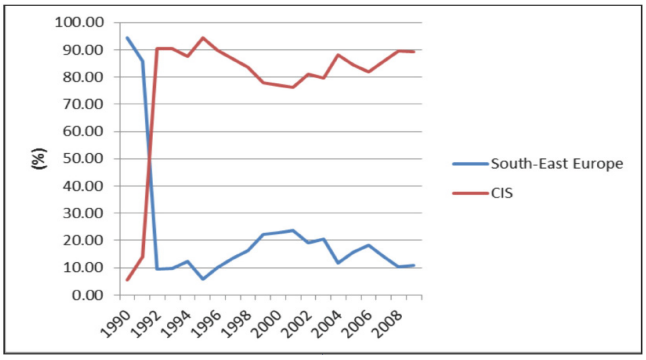

Figure 5.5 **FDI inflows' weight in South East Europe and CIS**
Source: own calculations based on UNCTAD DataStat

From the point of view of volume of investment inflows, the CIS evolution experiences four turning points throughout the period 1990 – 2009. The first moment is year 1991, which actually represents the end of the Soviet Union and the birth of several independent states. This change also meant the

emergence of a new investment destination, the volume of inflows increasing in the immediately following year (m1) by almost 400 times (Figure 5.6). The investment peak registered in year 1997 (m2) was followed by a relatively short period of oscillations, only that in year 2000 to start a new period of accentuated growth (m3).

The extremely favourable evolution of the international investment climate supported the strongly ascendant pace of inflows in the CIS region until year 2008, when a historical maximum of 109,897.71 million USD was reached. Year 2009 (m4) marks the emergence of the effects of the international economic crisis, effects strongly felt until the present.

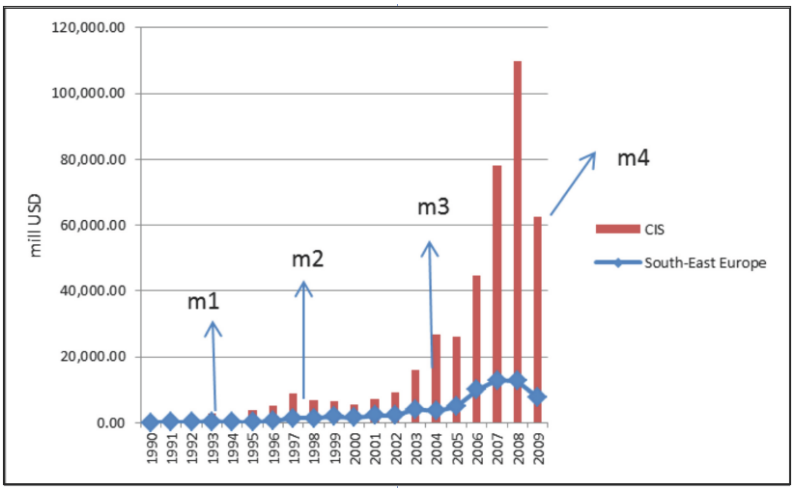

Figure 5.6 **FDI inflows in South-East Europe and CIS**
Source: own calculations based on UNCTAD DataStat

The pressure exercised by the competitiveness exigencies on the economies imposed to specialists complex approaches, which to highlight, on the one hand, the solutions for capitalizing on the existing potential, and on the other hand, the causes of the existence and persistence of certain distortions.

5.2 Role of the technology transfer in facilitating globalization

The economic and social progress constantly registered during the last centuries has its origin in the technological change. Technology has played a central role in economic growth, but also in the development of numerous other elements of social welfare, which can only partially be captured in the standard GDP assessment, such as education, health and, more recently, gender equality.

Technology transfer modelling

The last five decades are marked by the intensification of the scientific community's concerns for highlighting the role of technology transfer in stimulating economic growth, an important space of the studies performed being granted to the attempts to model as faithfully as possible the extremely complex relations that develop within the technology dissemination processes.

In a paper ([1966] 2011), Nelson and Phelps elaborated a new hypothesis meant to explain economic growth: the first component postulates that while the evolution of the technological frontier reflects the rate at which new discoveries are made, the increase of the factors' total productivity depends on their

implementation and varies positively with the distance between the current productivity level and the technological frontier.

The second component of the hypothesis suggests that the rate at which the difference between the technological frontier and the current productivity level is reduced (or even cancelled) depends on the level of the human capital.

The modern theories of economic growth paid great attention to the innovation stimulating mechanisms and to the market structures necessary for supporting the R&D activities. In general, it is considered that the investments have as purpose the creation of the conditions for obtaining monopole annuities with stimulating role in the innovation activity, since they allow the covering of its high costs. The investment costs reflect, among other things, the researchers' salaries of the income from royalties.

Usually, the labour market makes the distinction between the workers involved in research and those engaged in production, in some cases, the obtaining of the proper human capital being very expensive. In the conditions of a pre-existing generational structure (Munteanu, 2003), the intermediary assets or the newer and more efficient production processes can function together, as long as they produce positive quasi-annuities, meaning during the period when they are kept in the vicinity of the technological frontier.

The expanding of the basic knowledge stock is not usually highlighted in the evaluation of monopole annuities, even though it is unanimously acknowledged the fact that they stimulate the productivity of future research and represent a source of scale economies.

In the Nelson-Phelps model, the unincorporated technology flows are transferred from the technological leader to the followers, allowing them to increase the total productivity of the factors. The protection of patents and industrial models is, however, not explicitly analyzed, an important number of more recent research addressing the impact of imitation on the reduction of the innovation annuities by introducing the cost of imitation.

The study executed by Basu and Weil in 1998 focuses on the role of barrier against imitation, which the north-south distribution of factors is playing, as well as the possible emergence of the „convergence clubs". The endowment differences do not offer adequate imitation opportunities, such as the technological change occurred does not allow the increase of the efficiency of the cost economies.

In our opinion, imitators are able to implement the technology only with a certain delay, time interval during which the innovators can capitalize on their advantages. Benhabib and Spiegel (2002) grounded on the Nelson Phelps model, present a generalized model in which, by stimulating innovation and by facilitating the adoption of new technologies, the human capital influences productivity. The technology transfer takes place through different channels that imply the transmission of new knowledge between countries and inside them.

However, most times, the advanced technologies do not produce immediate effects on the productivity of the receiving country, the efficient capitalization of the new knowledge being able to be achieved only in the presence of an adequate human capital. Practically, the human capital stock belonging to the adopting country is the one that limits the absorption rate and determines the pace of the economic growth.

Numerous studies have shown that the existence of a well developed private sector and of a functional and efficient market represent the fundamental elements in ensuring technical progress. On the other hand, the efficient introducing on the market of the technological goods and services relevant from the social point of view depends on the direct contribution of the market's external actors: governments, non-governmental and/or international organizations.

The political framework facilitates technical progress by facilitating the population's access to extended technological competences and by providing the infrastructure adequate for the complexity of the technologies transferred.

Taking into account the dynamics of the technical progress, active support and stimulation measures must be taken for the creation of the connections between companies and R&D agencies.

Factors of technology absorption

At the national level, technical progress can also be produced through innovation, by adopting and adapting the existing technologies, but new on the internal market, by means of dissemination of technologies between companies, individuals and the public sector. In the economies with reduced development levels, the adoption of the new technologies is either absent, or very slow, on the one hand as a consequence of their high costs, and on the other hand, as a result of the absence of adequate human capital.

While the development processes manifest, the pace at which technology is adopted varies from one country to another, even in case of countries with comparable development levels. A possible explanation for this heterogeneity is constituted by the actual ability to absorb new technologies.

The economic literature consecrates **two key factors** for technology absorption.

A. Access to technology (usually foreign)

The trading flows, the direct foreign investments, as well as other forms of international cooperation, represent key channels that determine the success with which a country will access the technologies available at the global level. International trade constitutes an extremely important channel by means of which the incorporated technologies (in final goods or services) are transferred between the developing and the most developed countries.

Both components of international trade, import and export, are connected to the technology transfer processes. By means of the import of techno-intensive products, the developing countries are able to increase the quality of their own products and services, as well as the efficiency of producing them. From the perspective of export, the new technology is absorbed by means of a „learning through export" process, in which the exporters interact with foreign customers and competitors.

FDI represent the second major channel by means of which technological knowledge is transferred across the border. Even though the presence of foreign companies' branches increases competitive pressure on the local producers, the production and the research activities performed by the branches of multinational companies may determine drawing and propagation effects in the local economy (spillover). Knowledge is transferred to the local producers both through formal contracts and by means of informal relations (personnel leaving from the branches in which they gained specific knowledge and who disseminate it).

B. Absorption capacity

The efficiency of the transfer channel depends on the receiver's absorption capacity. In order to generate growth, external knowledge must be combined in the context of the existence of a minimum absorption capacity or of a social capability. The absorption capacity depends on numerous factors, among which we can mention as especially important:

- The volume of work force having a minimum level of technological knowledge (knowledge belonging to a compatible technological generation);
- The existence of a core of scientific elites;
- The existence of a climate favourable to investments;

- An economic frame favourable to the establishment and expansion of companies with activity in fields with high technological level;
- Easy access to capital;
- Institutional frame with the capacity to intervene/facilitate the adoption of critical technologies in the situations in which the private demand or the market forces fail.

While the developing countries move nearer to the technological frontier, a third factor intervenes. This explains the heterogeneity of technology adoption, namely the divergence in the countries' own innovative capacities. The R&D activity in a country is complementary to the technologies adopted/adoptable because it is a component of the absorption capacity. Before being used, foreign technologies must generally be adapted to local circumstances.

Empirical data illustrate the influence of R7D programs run at the level of companies and the connections between industry and the university academic environment on the availability of a country to adopt new technologies.

In case of countries with a very high development level, the R&D activity replaces technology transfer, allowing the creation of new technological generations, especially in the sectors in which there are significant comparative advantages. In this stage, countries need the accumulated technological know-how, especially in the form of public or private R&D resources, but also the stimulating or awarding of innovation.

The functional markets in developed countries are sufficiently open to allow the stimulation of the competition between the existing and the newly entered ones. The existing companies are stimulated to innovate in order to preserve their competitive position on the market, while the new companies, incorporating new ideas, can enter the market by capitalizing exactly on novelty.

It must be underlined the fact that, at the same time, there is a wide basis of national or foreign customers who wish to pay for the innovative products and an efficient system for protecting intellectual property rights.

Not lastly, it is worth mentioning the importance of the existence of a functional labour market: the business opportunities can be capitalized only if there is access with properly qualified and trained workers. Also, the existence of a functional capital market allows innovators to finance risky projects. High-tech start-ups, major source of innovations and disruptive technologies, especially need a risk capital.

Technical progress has a crucial role not only in industry, but also in other fields. For instance, some estimates (Ruttan, 2003) indicate that in time, technical progress amplified productivity in agriculture 4 times faster than in industry. Some low-tech products may be the result of very high level technological processes, while in some countries the execution of very high level products is the result of very low technological level assembling activities.

Not lastly, technology is incorporated in the production and management systems more than in physical goods or software algorithms. Technology and technical progress must be seen in a wider sense, simultaneously representing a determinant factor, but also a result of increasing incomes.

Factors' total productivity as technology transfer assessment instrument

Usually, economists regard the process by means of which goods and services are produced as a result of the combination of capital, work force and other production factors (land, natural resources) using a certain technology.

The relative efficiency with which a certain economy produced a quantity of goods and services on the basis of a definite quantity of capital and labour is called the factors' total productivity (FTP).

In general, FTP is interpreted as a measure of the production technology, its evolution pace being a measure of the technical progress.

The model we decided to use, inspired both by the Nelson-Phelps model, but also by the work of Benhabib and Spiegel (2002), has as basis the hypothesis that the GDP is described by a production function of the Cobb-Douglas type by three variables: capital (K), labour (L) and technical progress (T), estimated in our case by means of the factors' total productivity:

$$PIB = T \cdot K^{\alpha} \cdot L^{1-\alpha}, \quad (1)$$

Where α represents the increase of income due to capital and for which we shall use the standard hypothesis in the specialty literature, α=1/3 (Benhabib and Spiegel, 2002).

Therefore, it derives that the factors' total productivity can be determined by means of the relation:

$$T = \frac{PIB}{K^{\frac{1}{3}} \cdot L^{\frac{3}{3}}} \quad (2)$$

Factors considered

Labour (L). Even though in the opinion of some specialists the contribution of labour to the formation of the GDP is better reflected by the number of hours worked at the level of the national economy, for the future development we intend, we consider that more relevant is the number of persons. The labour factor included in the model was calculated by subtracting the number of unemployed workers from the active population.

The volume of the active population was obtained by aggregating the data on different age segments and by adjusting them with the corresponding average rate of activity. The estimates regarding the volume of the active population at the level of year 2009 were achieved by adjusting the values of 2008 with the GDP evolution index.

Capital (K). In order to appreciate the capital stock in the economy, we used as indicator the gross formation of the fixed capital, expressed in USD at the value of year 2000 (according to the WorldBank database).

In order to estimate the FBCF value in Hungary, Lithuania, Slovakia and Slovenia at the level of year 2009, we used the GDP evolution index in the period 2008-2009, adjusted with the average difference between the FBCF indicator and the GDP index of the period (0.90).

$$FBCF_{2009} = FBCF_{2009,i} \cdot I_{PIB_{09/08},i} \cdot d_{PIB-FBCF,UE} \quad (3)$$

Gross Domestic Product (GDP). We selected the GDP at the value of year 2000 expressed in USD, the data being obtained from the World Bank database. The value of GDP 2009 for Cyprus was estimated on the basis of the average GDP decrease index at the EU level (0.94) in the period 2008-2009, as a consequence of the economic crisis.

In order to study the developed EU countries, we considered relevant the period 1980–2008, and for the new Member States (Lithuania, Latvia, Estonia, Hungary, Poland, Romania, Bulgaria, the Czech Republic, Slovakia and Slovenia) we chose to eliminate from the analysis the period 1980 – 1989, for two reasons: the economies of these countries were centralized planned type and the existing statistical data could be vitiated by the political circumstances of the period, and, on the other hand, for some of the mentioned countries, they did not even exist as independent states (the Czech Republic, Lithuania, Slovakia, Estonia, Latvia).

Of the 27 EU Member States, Malta is absent, country for which no data was available regarding the unemployment rate and the gross formation of the fixed capital, such that we decided to exclude this country from the pool.

Data analysis

The evolution analysis of the computed values of the factors' total productivity (FTP) highlights the existence of a general ascending trend, the highest values being registered by Ireland and Cyprus (Figure 5.7). The very alert pace undertaken by Cyprus and Ireland in the respective period was due to the existence of a very large difference of industrial development, mainly generated by the low level of endowment with factors.

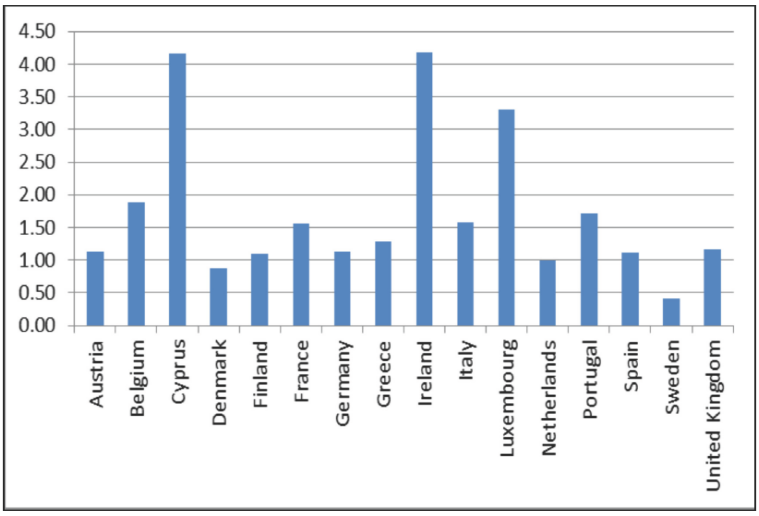

Figure 5.7 **Average FTP evolution pace in the EU countries in the period 1980 -1989 (%)**
Source: computed by author based on World Bank data

Even though from the GDP/capita perspective the leader of the decade prior to the updated period, as well as for the period analyzed is Luxembourg, in relation to the purpose of this paper, we consider more relevant the use of the gross added value to the factors' price (VABpf) in order to point out differences.

Thus, at the level of year 1980, the VABpf ratio between Cyprus and Germany (leader) was of 1 to 361. However, we must underline the fact that the economy structure of Cyprus is totally different from that of Germany's such as the relevance of distance is relatively low. Portugal, although lagging behind, did not record a pace as alert.

The analysis of the distances between the different European countries in the sphere of the factors' total productivity (Table 5.3) highlights the existence of two distinct nuclei: Austria, Germany and Italy, on the one hand, and Belgium, Great Britain, Spain, France, Finland, The Netherlands and Sweden, on the other hand.

It is also seen (Figure 5.8) the large distance between the countries lagging behind (Cyprus and Portugal) and the rest of the EU countries.

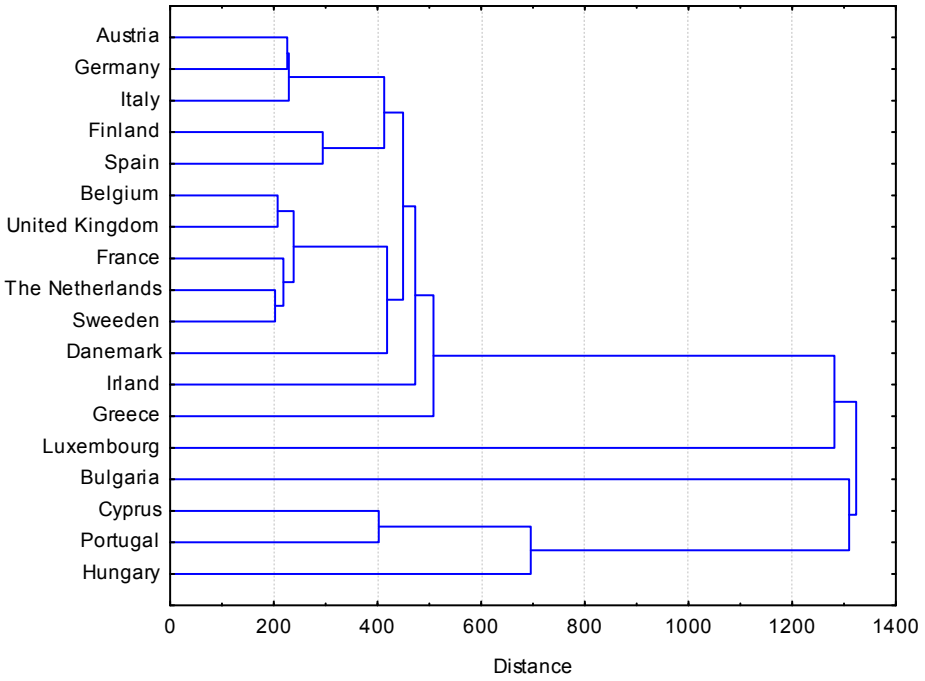

Figure 5.8 **Formation of groups of countries, depending on the FTP distance in the period 1980 - 1989**
Source: computed by author based on World Bank data

Previously performed studies (Poncet, 2006) indicate that the differences between the countries with high incomes and those with lower incomes exist as a consequence of the differences in the efficiency with which they produce goods and services, the value of the correlation coefficient indicating a much stronger dependency of GDP/capita on FTP for the less developed states than in the case of the EU developed countries (Figure 5.9).

The model proposed by Nelson and Phelps in 1966 offers a possible explanation for the very weak connection between the factors' total productivity and GDP/capita in case of Denmark, namely the concentration of efforts on the increase of the level of human capital and thus on nearing the technological frontier.

In fact, it must be noticed that throughout the entire period, the amplitude of the variation compared to the average (Figure 5.10), both in what concerns GDP/capita, and with respect to FTP, remained at very high values, the FTP variation constantly being above 100%.

Table 5.3 **Matrix of FTP distances in the period 1980 – 1989 in the EU countries**

Country	Austria	Belg	Cyprus	Danem	Fin	France	Ger	Greece	Ireland	Italia	Lux	The Neth	Port	Spain	Swed	UK
Austria	0.00	974.16	3015.95	1156.15	618.13	649.54	225.69	1349.93	880.62	228.87	2284.40	550.25	2665.75	861.05	563.54	813.99
Belgium	974.16	0.00	3949.64	418.63	1558.04	376.31	1168.29	2300.39	1674.15	839.69	1348.45	479.80	3611.08	1802.31	520.57	206.96
Cyprus	3015.95	3949.64	0.00	4163.55	2415.53	3640.66	2822.00	1682.68	2334.45	3152.54	5226.48	3550.79	402.32	2170.13	3563.30	3804.88
Danem	1156.15	418.63	4163.55	0.00	1762.13	587.51	1353.13	2490.63	1950.26	1047.81	1281.35	626.25	3810.17	2003.23	633.71	467.54
Fin	618.13	1558.04	2415.53	1762.13	0.00	1232.93	413.20	755.89	473.01	744.81	2856.27	1151.77	2067.78	294.60	1150.80	1401.75
France	649.54	376.31	3640.66	587.51	1232.93	0.00	832.07	1979.18	1390.65	493.54	1649.12	245.53	3296.61	1489.37	218.59	238.47
Ger	225.69	1168.29	2822.00	1353.13	413.20	832.07	0.00	1153.21	713.81	350.85	2465.63	748.51	2471.24	673.60	746.19	1006.79
Greece	1349.93	2300.39	1682.68	2490.63	755.89	1979.18	1153.21	0.00	841.32	1493.34	3596.79	1883.41	1323.08	507.58	1889.74	2148.58
Ireland	880.62	1674.15	2334.45	1950.26	473.01	1390.65	713.81	841.32	0.00	938.23	2905.53	1347.34	2029.44	533.38	1376.35	1551.24
Italia	228.87	839.69	3152.54	1047.81	744.81	493.54	350.85	1493.34	938.23	0.00	2122.61	466.96	2808.49	1011.02	449.14	682.20
Lux	2284.40	1348.45	5226.48	1281.35	2856.27	1649.12	2465.63	3596.79	2905.53	2122.61	0.00	1780.18	4897.69	3108.02	1797.49	1510.28
The Netherlands	550.25	479.80	3550.79	626.25	1151.77	245.53	748.51	1883.41	1347.34	466.96	1780.18	0.00	3199.32	1389.65	202.35	324.58
Port	2665.75	3611.08	402.32	3810.17	2067.78	3296.61	2471.24	1323.08	2029.44	2808.49	4897.69	3199.32	0.00	1815.75	3209.82	3461.27
Spain	861.05	1802.31	2170.13	2003.23	294.60	1489.37	673.60	507.58	533.38	1011.02	3108.02	1389.65	1815.75	0.00	1402.34	1650.59
Sweden	563.54	520.57	3563.30	633.71	1150.80	218.59	746.19	1889.74	1376.35	449.14	1797.49	202.35	3209.82	1402.34	0.00	342.70
UK	813.99	206.96	3804.88	467.54	1401.75	238.47	1006.79	2148.58	1551.24	682.20	1510.28	324.58	3461.27	1650.59	342.70	0.00

Source: computed by author based on World Bank data

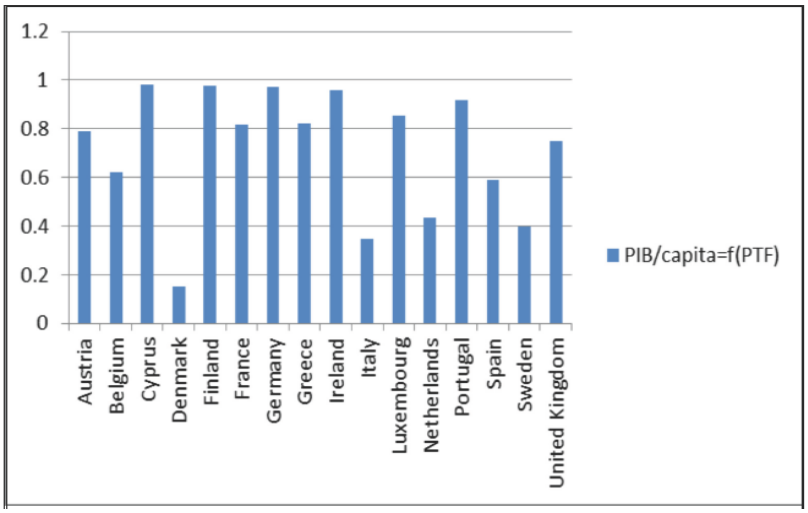

Figure 5.9 **Value of the correlation coefficient between GDP/capita and FTP in the period 1980 – 1989 in the EU countries**

Source: computed by the author based on World Bank data

The evolution of the standard deviation in the mentioned period also confirms the preservation of the intra-European differences. In what concerns the factors' total productivity we can even notice a deepening of the difference between the countries (Table 5.4).

Table 5.4 **Extreme values of the standard deviations for GDP/capita and FTP**

Specification	Min	Max
GDP/capita	400.0959	465.1071
FTP	4454.208	5986.917

Source: own computations (synthesized)

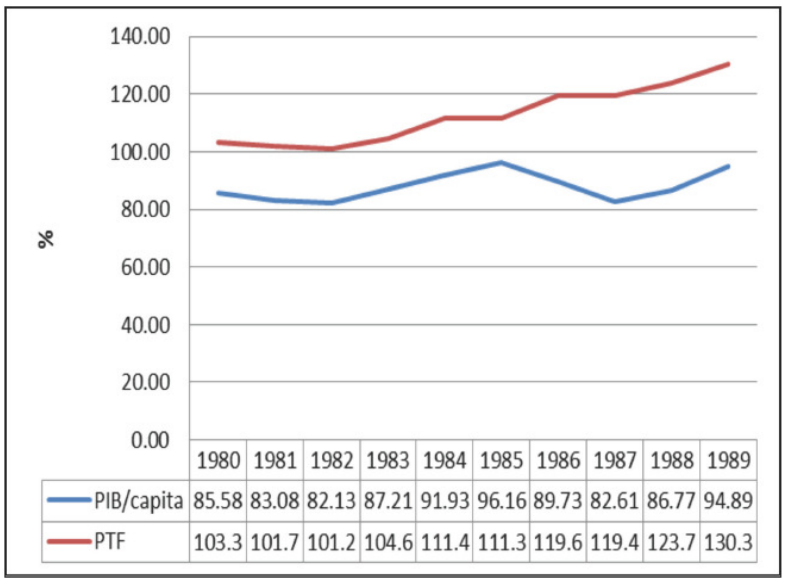

Figure 5.10 **Evolution of the FTP and GDP/capita variation amplitude compared to the average, in the EU countries, in the period 1980 - 1989**

Source: own author computation

The period 1990–2009 is characterized by the consolidation within the EU of 5 distinct groups of countries (Table 5.5). As in the previous case, Luxembourg stands out as a separate nucleus within the EU.

Table 5.5 **Groups of countries within the EU in the period 1990 – 2009**

	No. 1	No. 2	No. 3	No. 4	No. 5
No. 1	0.000				
No. 2	796.646	0.0			
No. 3	1027.255	231.5	0		
No. 4	2238.438	1443.7	1215	0	
No. 5	768.510	1562.2	1793	2999	0

Source: computed by author based on World Bank data

Cluster No.	**Member States**
Cluster 1	Cyprus, Greece, Portugal, Slovenia, Spain
Cluster 2	Austria, Germany, Finland, Italia, the Netherlands
Cluster 3	Belgium, Denmark, France, Ireland, Sweden, Great Britain
Cluster 4	Luxemburg
Cluster 5	Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia

Source: own author computation

From the analysis of the FTP averages distribution in the period 1990–2009 is can be seen the continued preservation of the productivity difference between the five clusters identified.

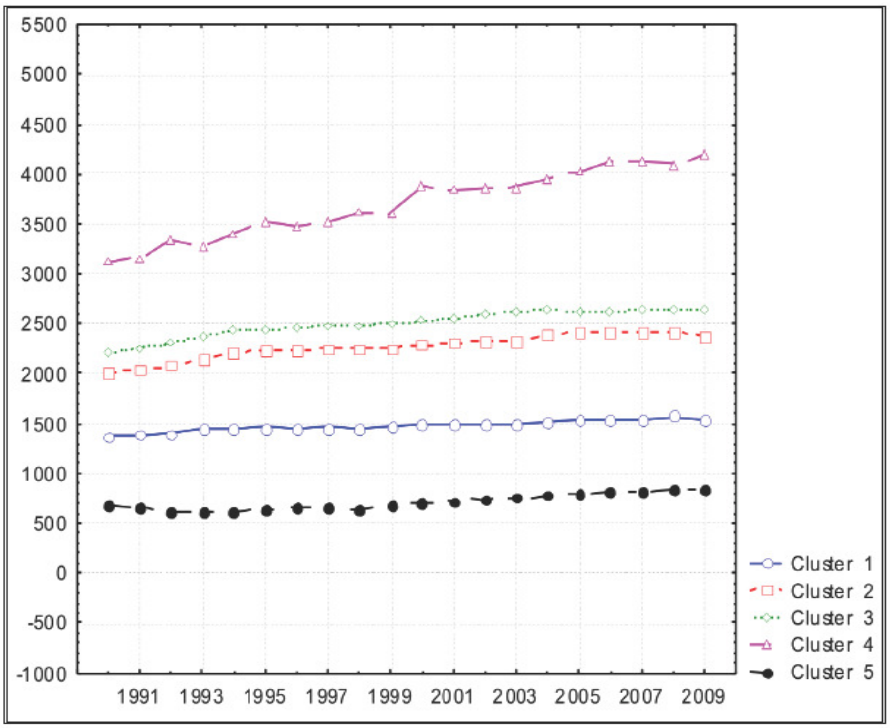

Figure 5.11 **Distribution of FTP averages in the period 1990 – 2009 on groups of countries**

Source: computed by author based on World Bank data

Table 5.6 **Matrix of FTP distances in the period 1990 – 2009**

	Au	Be	Bg	Cy	Cz	Dk	Es	Fi	Fr	Ge	Gr	Hu	Ir	It	LV	Li	LUX	NL	Pol	Por	Ro	SK	Slv	Sp	SW	UK
Austria	0	1248	7849	3202	6145	1697	6668	901	1352	487	2548	5847	1160	859	6870	6462	6804	458	6058	4133	7813	5921	4131	2208	1824	1529
Belgium	1248	0	9022	4372	7330	516	7861	823	225	833	3722	7031	761	787	8052	7642	5680	1024	7243	5304	8992	7117	5308	3253	801	451
Bulgaria	7849	9022	0	4682	1721	9466	1248	8594	9077	8251	5328	2012	8934	8342	1011	1510	14644	8040	1830	3723	195	1994	3737	5834	9628	9345
Cyprus	3202	4372	4682	0	3001	4825	3511	3945	4431	3591	877	2696	4296	3708	3713	3365	9980	3417	2896	1043	4655	2778	1111	1387	4962	4690
Cz	6145	7330	1721	3001	0	7774	592	6893	7390	6554	3626	322	7229	6663	747	541	12937	6343	338	2031	1673	407	2038	4179	7931	7647
Denmark	1697	516	9466	4825	7774	0	8307	1120	482	1289	4157	7476	935	1187	8497	8086	5251	1443	7691	5747	9436	7565	5748	3680	613	327
Estonia	6668	7861	1248	3511	592	8307	0	7409	7923	7076	4168	855	7743	7197	332	690	13451	6880	651	2576	1193	776	2592	4729	8448	8173
Finland	901	823	8594	3945	6893	1120	7409	0	918	558	3307	6590	587	890	7614	7235	6070	867	6795	4885	8558	6660	4895	2948	1089	885
France	1352	225	9077	4431	7390	482	7923	918	0	937	3785	7091	904	766	8112	7706	5650	1101	7307	5363	9050	7183	5370	3285	822	497
Germany	487	833	8251	3591	6554	1289	7076	558	937	0	2958	6253	857	592	7275	6879	6411	470	6459	4535	8218	6331	4543	2554	1396	1119
Greece	2548	3722	5328	877	3626	4157	4168	3307	3785	2958	0	3333	3643	3072	4353	3945	9336	2724	3562	1612	5291	3430	1608	832	4339	4034
Hungary	5847	7031	2012	2696	322	7476	855	6590	7091	6253	3333	0	6929	6363	1040	810	12638	6047	328	1735	1971	309	1752	3885	7629	7347
Ireland	1160	761	8934	4296	7229	935	7743	587	904	857	3643	6929	0	1150	7949	7554	5725	1132	7135	5227	8896	6993	5223	3304	875	667
Italia	859	787	8342	3708	6663	1187	7197	890	766	592	3072	6363	1150	0	7382	6982	6397	571	6582	4636	8319	6462	4648	2538	1475	1139
Latvia	6870	8052	1011	3713	747	8497	332	7614	8112	7275	4353	1040	7949	7382	0	676	13660	7068	877	2755	964	1018	2769	4892	8652	8369
Lithuania	6462	7642	1510	3365	541	8086	690	7235	7706	6879	3945	810	7554	6982	676	0	13256	6651	801	2374	1444	847	2355	4494	8265	7966
Luxemburg	6804	5680	14644	9980	12937	5251	13451	6070	5650	6411	9336	12638	5725	6397	13660	13256	0	6649	12842	10930	14606	12699	10928	8917	5038	5325
NL	458	1024	8040	3417	6343	1443	6880	867	1101	470	2724	6047	1132	571	7068	6651	6649	0	6266	4318	8006	6137	4317	2294	1697	1341
Poland	6058	7243	1830	2896	338	7691	651	6795	7307	6459	3562	328	7135	6582	877	801	12842	6266	0	1968	1786	328	1991	4116	7831	7558
Portugal	4133	5304	3723	1043	2031	5747	2576	4885	5363	4535	1612	1735	5227	4636	2755	2374	10930	4318	1968	0	3690	1857	229	2169	5917	5625
Romania	7813	8992	195	4655	1673	9436	1193	8558	9050	8218	5291	1971	8896	8319	964	1444	14606	8006	1786	3690	0	1939	3699	5816	9596	9312
Slovakia	5921	7117	1994	2778	407	7565	776	6660	7183	6331	3430	309	6993	6462	1018	847	12699	6137	328	1857	1939	0	1871	4015	7701	7426
Slovenia	4131	5308	3737	1111	2038	5748	2592	4895	5370	4543	1608	1752	5223	4648	2769	2355	10928	4317	1991	229	3699	1871	0	2191	5925	5628
Spain	2208	3253	5834	1387	4179	3680	4729	2948	3285	2554	832	3885	3304	2538	4892	4494	8917	2294	4116	2169	5816	4015	2191	0	3919	3599
Sweden	1824	801	9628	4962	7931	613	8448	1089	822	1396	4339	7629	875	1475	8652	8265	5038	1697	7831	5917	9596	7701	5925	3919	0	453
UK	1529	451	9345	4690	7647	327	8173	885	497	1119	4034	7347	667	1139	8369	7966	5325	1341	7558	5625	9312	7426	5628	3599	453	0

Source: computed by author based on World Bank data

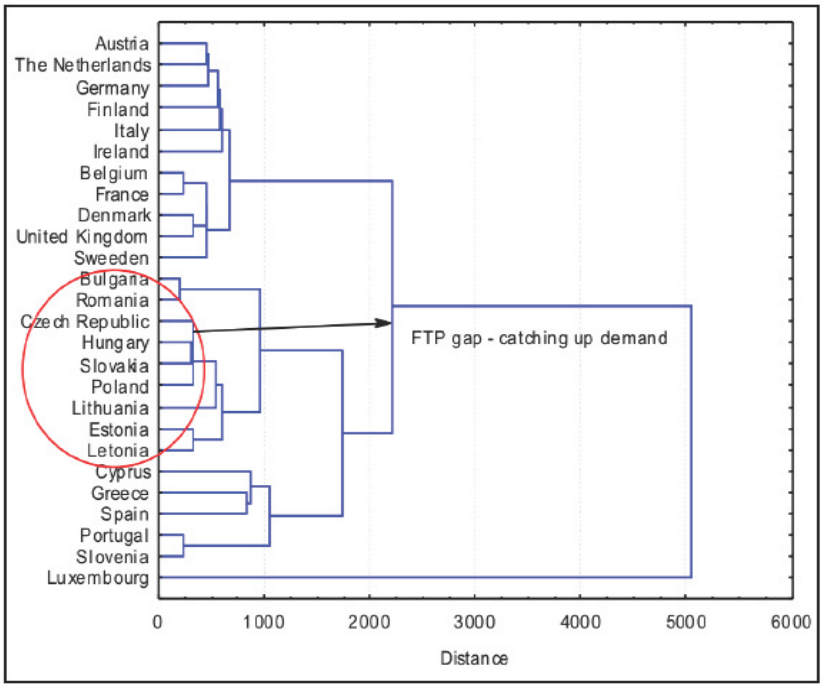

Figure 5.12 **Formation of intra-European clusters**
Source: own author computation

The difference between the average levels of the two nuclei has a significant dimension, its reduction pace being present much too slowly for allowing the catching up, within a reasonable time-frame (Figure 5.13).

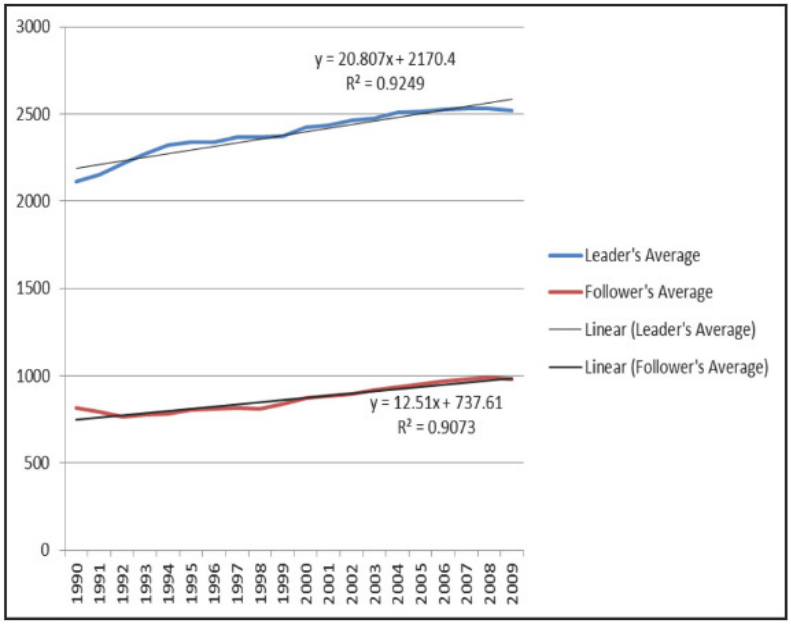

Figure 5.13 **Average FTP evolution in the main two clusters EU**
Source: own author computation

Practically, at the current evolution pace (0.96% per year) the followers' nucleus may catch up with the leaders' nucleus in more than 500 years. However, it must be underlined the fact that the uni-factorial perspective is not completely conclusive and it may have only the theoretical value of demonstrating a state of fact.

Conclusion

The document known as *Recovering from the Crisis: a Global Jobs Pact*, adopted at Geneva on 19 June 2009, emphasizes the decisive importance of vigorously addressing the social and employment impact of international economic and financial crisis, focused on promoting an active recovery through investment, employment and social protection.

The overall objective of the pact is to help mobilize the general plan of all the economic recovery effort with emphasis on recovery that will create decent work opportunities, as outlined in four key areas : improve the financial supervisory and regulatory framework, achieve efficient and well regulated trade markets that work for all, the transition to an economy based on the use of technologies that protect the environment and identification of development strategies to enable everybody to place employment and social protection in the centre of economic, social and poverty reduction policies, and to be supported internationally.

The studies and analysis in this area have to take into account the known fact that workforce employment needs longer to recover than the economy. The inertia of the labour market is quite pronounced, and the time gap between economic recovery and the recovery of the employment requires considerable effort, where developing green economy and creating conditions for decent work must be an important part. The declaration of the leaders of the work field *Regulate, Redistribute, and Return to Social Values and Decency,* adopted in Davos, 27 to 31 January 2010, insists over the problems of mass unemployment, increase of employment insecurity and deterioration, decline of social protection as main components of the modern society polarization scenario.

Both Labour and Employment, severely affected by recent developments in the global economy, have returned in force, almost without exception, to be the focus of all decision makers in the economic and social field. The persistence and deepening of the employment crisis demonstrates the urgent need for an internationally coordinated coherent and strong strategy aimed at recreating the lost jobs and not only.

The main purpose of this strategy must be to create sustainable and decent work places for the unemployed and to give further and substantial impetus to the private sector revival. In the present context, the quality of newly created work places is very important. Extending precarious forms of employment, labour market deregulation, increased wage flexibility and decrease of unemployment pay is not a response to the employment current crisis. In fact, we must emphasize that the growing insecurity that has been a characteristic of employment in recent decades has significantly contributed to the global economic downturn.

Therefore, the need to increase labour market security is a major challenge for both industrialized countries and for the developing ones. Investment in the current economic transition towards economies generating low carbon emission should be the central element of future economic development, stressing that in this journey affected communities will have decent jobs and a secure future. One aspect we want to mention is that both forces, the ones that interrupted the process of globalization and those that promote its development, are present. Recent economic crisis caused serious damage to the global economy in all its segments, eroding the star position awarded to globalization by the neoliberal artisans of contemporary development.

Equally, there are strong regional interests that promote globalization in a fragmented form, especially from countries that seek to maximize the benefits they enjoy as a result of international trade and economic integration, without wishing the changes that would lead to increased international regulations, including laws, rules and institutions (Gokhale, 2010, p. 15-17). The evolution of global macroeconomic indicators, especially GDP, shows that the global economic crisis is far from complete.

The *World of Work Report 2009*, ILO, International Institute for Labour Studies shows that in the time since the outbreak of the crisis until the publication of the document more than 20 million jobs have been lost, and the process certainly continues today. In addition, it is estimated that without appropriate measures, we can also expect that there will be nearly 43 million people who will either lose their jobs or enter the category of newcomers into the labour market but with no jobs, thus aggravating the employment crisis, with a negative impact on potential future development.

To these developments should be added that climate changes, produced mainly due to greenhouse gas emissions are a direct threat to the current global potential of sustainable development and living standards. The costs associated with climate changes adversely affect economic growth particularly in developing countries. Experts indicate that the negative evolution of climate change requires a reduction in CO_2 emissions by minimum 50% by 2050, which will seriously affect employment given the fact that 38% of current jobs are in sectors with production processes based on technology with high levels of CO_2 emissions.

At the same time, the transition to a green economy offers huge opportunities to increase employability of the workforce by opening new markets, stimulating eco-innovation and investment in more efficient production technologies. ILO experts consider that *green policies* such as tax increases imposed on those *guilty* of producing CO_2 emissions, will generate substantial revenue that could be used to reduce labour taxes, which will be beneficial to stimulate increased demand for labour, provided that such policies are to be applied in a coordinated manner.

Stimulating the demand for labour in order to improve employment and decrease unemployment depends on the ability of decision makers to ensure the overall economic, legislative and institutional framework for achieving economic growth rates high enough to ensure sustainable development. Economic policies must be developed to promote and sustain economic growth and structural adjustments must be made continuously for Romania to cope with changes imposed by the current global economic developments.

A viable economic policy must necessarily be able to stimulate at the same time, demand and supply of economic goods. Taking into account all relevant aspects of previous and recent developments generated by the economic crisis in all areas of daily life, it is imperative that analyzes of employment structures to be developed in conjunction with a wider range of factors, which may be of legislative, political, subjective, contextual, etc. nature (Zirra, 2009c, pp. 362-373).

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SUBJECT INDEX

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