

# Human Development in Romania during the Period of Transition to the Market Economy

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## Abstract

*Twenty years ago, our country turned towards a functional market economy, trying to leave behind the aspects of the planned economy. The restructuring of the Romanian economy, the privatization in general, the lack of coherence with regard to the economic decisions and their application made the way towards a market economy full of ebbs and flows and the final target was reached twice as difficult as compared to other ex-socialist countries. This had consequences on the human development as well: population migration increased, natural growth continued to be negative, many of the health indicators decreased and the education undergoes a continuous reform. The other aspects of the human development underwent different evolutions in time. Nevertheless, starting with 2004, our country becomes one of the countries with a high degree of human development (0.800). This work is meant to identify some aspects of the human development in Romania in the period of transition to a functional economy.*

**Key words:** *human development, period of transition to the market economy, human capital, the pillar of the human and economical development*

**JEL Classification:** *O11*

## Introduction

In the current conditions influenced by globalization, enlargement of gaps between countries and different social categories and significant climate changes, the sustainable development becomes a necessity for all the countries in the world. Starting on a long and difficult journey having as final point the generalization of the functional market economy and, implicitly, the sustainability of the human development, Romania underwent both progress and regress in the period 1990-2007, both in the area of macroeconomic indicators and those of human development.

## From Economic Growth to Sustainable Human Development – Conceptual Delimitations

Concepts like economic growth, economic development, as well as the relationship between them represented, in time, the favorite study topic for different economists (A. Smith, D. Ricardo, J. S. Mill, D. Malthus, J. M. Keynes, S. Kuznetz, F. Perroux, P. Samuelson, etc.).

There is a part-whole relationship between economic development and growth. Economic growth represents the assembly of activity improvement and their results at the level of the national economy and on its different subsystems, closely related to the influence factors. Economic growth can exist without economic development, but the other way around is not possible. Economic development expresses the total of quantitative, structural and qualitative transformations that occur within economic processes, science, technology and knowledge. The development is a continuous process of adjustments and readjustments to change whose outcome is human development.

Starting with 1972 (the first UNO conference on development which took place in Stockholm) ecodevelopment became an official topic. In the same year, it was published the first report of the Club of Rome ("*Limits to Growth*") presenting economic problems, environmental pollution, explosive population growth, accelerated depletion of resources and their inseparable relationships. In the following years it is set up the International Commission for Environment and Development which defines in 1987 the term of sustainable development (Brundtland Report called "*Our Common Future*"). In general terms, sustainable development represents "*the type of development which has the capacity to meet the requirements of present generations without compromising the capacity of future generations to satisfy their own needs*"<sup>1</sup>.

This conception does not necessarily imply supreme sacrifice, of any kind, from the present generations so that the future ones live a better life, but finding those ways for improving the quality of life without compromising the welfare of future generations. Thus, humankind becomes aware of the fact that, in order to benefit from sustainable development, the simple economic progress is not enough.

Sustainable development includes three dimensions: sustainable economic development, social justice and environment preservation. By adopting *Agenda 21*, the sustainable development becomes a strategic target for the 21<sup>st</sup> century.

At the level of the European Union, in March 2000, it was presented the *Lisbon Strategy* whose fundamental target is to make sure that in 2010, the EU will become the most dynamic and competitive economy based on knowledge, capable of a sustainable economic growth, with more and better jobs and with greater social cohesion<sup>2</sup>. Later, in 2005, in Brussels, considering that the Lisbon Strategy was elaborated in a general way, the European Council made several important recommendations for the European States: increase of the European productivity potential, consolidation of the social cohesion by paying more attention to the new development and competition factors: knowledge, innovation and human capital. Thus, the individual is granted the key role for any sustainable development, role acknowledged at the international level since the end of the 20<sup>th</sup> century and the beginning of the new millennium. The current worldwide economic crisis seriously tests the possibility to achieve the supreme goal of the Lisbon Strategy.

Human development, an important component of the sustainable development, focuses on ensuring the conditions for the development of human capacities and their exploitation and the term "environment" is seen as a series of factors influencing the human development. The most important problem of the sustainable development is the identification of the measures needed with a view to ensuring the continuity of the economic and social development, simultaneously with environment improvement and preservation which is considered an essential premise for improving the quality of life. An economy becomes sustainable if it optimally combines productivity, stability and the intra- and inter- generation equality.

<sup>1</sup> \*\*\* România. Strategia Națională pentru Dezvoltarea Durabilă, Editura Nova, București, iulie 1999.

<sup>2</sup> Roșca, Gh. I, Cotigaru, B, Petrescu, V., Popescu, Ct. (coord.), *Reconstrucția instituțional-spirituală a întreprinderilor, cerință a dezvoltării durabile în societatea cunoașterii*, Editura ASE, București, 2006, pag. 203;

The anatomy aspects of the sustainable development presuppose the identification of the natural, anthropic and human capital and, according to some specialists, the social capital. Many specialists have proposed lately the educational capital as a transverse pillar of the development, arguing that, without an education, even if we are speaking of human development and economic development, these are not sustainable because the progresses achieved do not generate long term effects. Human underdevelopment and ignorance are the causes of poverty, of a poor occupancy from the qualitative point of view, having a negative contribution to the human development. On the long term, for a person, region or country, there is no other advantage more valuable than knowledge.

The concept of sustainable human development must start from an analysis, as close as possible to reality, of the economic and social aspects which must be thoroughly quantified by means of an indicator system. The quantification of the sustainable development, and implicitly of the human development, is perceived and achieved differently from one country to another.

Among these indicators there is the Human Development Index which includes three indicators aiming at different aspects of the human development: longevity, measured by the average life expectancy, resources necessary for a decent life standard, quantified by the Gross Domestic Product/inhabitant expressed in USD at the purchasing power parity and the level of education determined as the weighted arithmetical mean between the population alphabetization degree (two thirds) and the gross rate of education inclusion at all levels (one third). In order to comprise other aspects of the living standard as well, other indicators are also used: Gender Disparity Index, Index of women's participation in the economic and social life, Index of Human Poverty, Index of viable economic prosperity<sup>3</sup> and Cereal Consumption per inhabitant.

## **Evolution of the Romanian Economy in the Period 1990-2007**

Since the end of 1989, Romania has started the long and difficult journey of passing from an economy model to another. The Romanian transition period "from Plan to Market" was extremely long (longer than most of the European countries going through the same situation at the beginning of the 9<sup>th</sup> decade of the last century) and it materialized in crisis in its first decade.

At a closer look at the overall evolution of the Romanian economy, the entire period of 18 years of analysis (1990-2007) can be divided in *two subperiods: 1990-1999 and 2000-2007, the first being characterized by a significant instability which includes a full economic cycle and the descending phase of the second economic cycle, and the second one marked only by economic growth.*

The analysis of the evolution of the Gross Domestic Product in the period 1990–2007 points out *the existence of two "classical" economic cycles. The first cycle* extended over the period 1990-1996 and had a descending period of three years, 1990–1992, and *the second economic cycle* which lasted 11 years (12 if we take into consideration year 2008 as well) and it was also characterized by a descending phase of 3 years, 1997–1999, followed by an ascending phase of 8(almost 9) years.

Although, nominally, the Gross Domestic Product increased from one year to the next, realistically, (fix prices 1990) only since 2004 we can talk about exceeding the Gross Domestic Product level registered in 1990, *which can mean that only now we can make the statement that Romania has a true economic growth able to support the human development.*

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<sup>3</sup> Roșca, Gh. I, Cotigaru, B, Petrescu, V., Popescu, Ct. (coord.), *Reconstrucția instituțional-spirituală a întreprinderilor, cerință a dezvoltării durabile în societatea cunoașterii*, Editura ASE, București, 2006, pag. 298;

The activity sectors contributed differently to the Gross Domestic Product formation. Structural modifications were natural consequences of the privatization and the massive restructuring, the increase of intermediary consumptions, increase in the prices for all production and consumption goods and services, massive increase of the imports and “explosion” of the currency exchange rates. Throughout this entire period, the sectors which create real added value in an economy (primary activity sector and industry) diminished their contribution to the formation of the Gross Domestic Product. The conditions existing in the primary sector (accentuated division of the agricultural exploitation, ageing of the population involved in this sector, low degree of technical-productive equipping of the agricultural areas, lack or scarcity of irrigation systems, unfavorable climate conditions over several years, as well as other factors) constantly diminished the Gross Added Value generated by the Romanian agriculture to such a degree that from a country exporting agricultural products, Romania became a market for the developed countries thus influencing the human development in Romania.

The decrease of the Gross Added Value generated in the industry had as major cause the chaotic privatization and restructuring of this activity sector, so that the overall human development was affected by the disappearance of some large factories, creators of added value and with a big capacity to generate new jobs.

The Gross Added Value obtained in the construction sector has a tendency to increase. The increase caused by the constructions took place especially after year 2000, as a natural consequence of the redevelopment of the real estate sector and the positive evolution of the Gross Added Value obtained in the tertiary sector was mainly due to activities such as finances, banking, real estate, commerce and telecommunications.

Until 2001, the Gross Domestic Product (GDP)/ inhabitant, a very important indicator for determining the Human development index, had lower values than the ones from the first transition year. But, if the GDP/inhabitant indicator was generated based on a massive reduction of the population, we cannot speak of a sustainable human development. Starting with 2004, the increase of the GDP/inhabitant is due to a more rapid increase of the GDP compared to the numeric decrease of the population which influenced in a positive manner Romania’s human development. Starting with this year, our country is included in the group of developed countries, having a Human Development Index (HDI) above 0.800. Nevertheless, the gap between our country and the EU27 average continues to be significant.

Also a natural consequence of the modifications occurring in the economy is the change of the global demand structure; the increase of the total final consumption was mostly due to the increase of the final consumption of the households, fact which might prove an improvement of the population’s living standard and which was the basis of a human development, not a sustainable one, because most of the consumption was and continues to be based on debt, either in the form of internal loans – consumption based on future income- or as a result of the fact that the import exceeded the export.

On the other hand, the expenses needed for the fixed capital – essential vector of the economic potential, even if characterized by increases throughout this entire period, are still insufficient and based on an investment rate which exceeds only accidentally the quota of 20-25% from the GDP. Generally, investments generate jobs, bigger incomes, potential and sustainable human development.

The analysis of the evolution of the sector-occupational productivity points out the fact that only in the tertiary sector we can speak of an increase of the labor productivity during the entire period 1990- 2007. However, not all increases of productivity are viable. Sometimes, the productivity increase is achieved as a result of a more rapid reduction of the occupied population rather than due to the GDP. Analyzing the evolution of the labor productivity in

Romania, one can notice that between 1995 and 2003 the economic growth was not sustainable, highlighting a non-sustainable human development.

## **Transition versus Human Development**

Human capital represents an essential resource of the sustainable development process, both regarding its quantity and quality. The economic modifications affected in a different way Romania's population. The decrease in the birth rate, the alarming increase of mortality rates and the massive external exodus of the population in search for a better life inevitably led to Romania's loss of almost 2 million persons. Throughout the entire period 1990-2007, the conjunctural fertility index registered lower values than the level of simple generation replacement. The permanent deterioration of the population age structure announces implications in the sustainability of the social security schemes, modification of the labor market and education, etc. In the period 1990-2007 there was an increase of the share of the population over 65 years old and the significant reduction of the share of the very young population, thus contributing to the increase of the demographic aging index.

Moreover, due to the economic problems, there appeared the phenomenon of external migration. The migration caused a series of "perverse" effects. For a long period of time, it represented the salvation for many persons without a job and their families, but for the country it meant the decrease of the number of unemployed persons and diminished the financial implications of unemployment. Those who chose to leave spared the state budget of unemployment payments, contributed financially to the support of the families staying at home and improving their living standard, contributed to the increase of consumption and investments, but deprived the country of specialists in several areas of expertise.

Another measure taken by the population against new problems they were facing at the beginning of the transition period was the internal migration movement: urban-rural. In the first part of the transition period, the rural environment proved to be an "escape gate" for many persons without a job by practicing subsistence agriculture, but contributing to the aging of this population and a low productivity of this sector. In time, the rural environment from the outskirts of big cities proved to be a refuge for the population tired of the over-agglomeration of the urban areas and their pollution and chose to change their residence environment. They proved to be points of attraction for the real estate developers who came to meet the demand of a new segment of clients. Thus, helped by the fluidity of the bank loan granting, the construction sector began to develop again and the added value created in the tertiary sector increased. Nevertheless, the rural environment was and still is a marginalized space of the human development even if the technical equipping of the localities or households extended in the last years.

Education is an important pillar of the human and economic development, producing positive effects on the medium and long term. From the very first years of the transition, education underwent a comprehensive reform process which is still ongoing. The consequence was an education index with the lowest contribution to the creation and growth of the HDI, comparatively with its other components, this reflecting a non-sustainable human development. We consider Romania still has an educational basis for the human development not exploited at its real value. Education should have been, throughout these 18 years, a "driver" of the development in general and the human development in particular, because our country has always had and it still has a high degree of the gross rate of education inclusion and a high alphabetization rate. Nevertheless, the experimental reform in education determined the numeric reduction of the didactic staff, its decreasing quality and number of education units. This evolution was also determined by an alarming reduction of the birth rate, but also by the low financing of the educational system or the insufficient motivation of the didactic staff.

But not all of the indicators characterizing the educational sector have deteriorated. The increase of the number of universities – most of them private institutions- represented a positive thing if we take into consideration the facilitation of access of the population to such type of education or the way in which the education attempted, but partially failed, to meet the demand of specialists on the market. The unemployment risk for the population with university degree proved to be lower than the one for the other categories and diminishes the risk of poverty for this population segment.

Health represents a crucial problem from the human development perspective, being an essential premise for the education and job occupancy, elements bringing wellbeing and sustainable development. In the period 1990-2007, the health indicators had different evolutions, so that the population mortality rate oscillated between minimum 10.6 and 12 per one thousand inhabitants, while the mortality rate depending on the cause registered constant increases of deaths as a result of diseases of the circulatory system and tumors.

An important factor which can generally affect the human development is morbidity, because precarious health can have a negative influence on the income of the affected person and his/her family, his/her productive labor force, having indirect consequences on the society development. At the national level, although in the period 1990-2007 there were progresses in the stoppage of incidence and fatal consequences of infectious diseases, the number of tuberculosis causes – disease and poverty- are still at alarming quotas.

In the health domain, there are indicators that have improved since 1990, but some others have deteriorated. The long period of reform, low financing of the health sector, poor motivation of the medical staff caused a difficult access to the health services, their poor quality most of the times, medical units lacking the proper equipment.

The economic growth, the increase of the incomes, as well as the economic stability are materialized in better living conditions and a better and more sustainable human development. The human development is linked to the amount of the income. The consumption demand depends on the real incomes of the population and the market offer, namely the economic activity, depends on the consumption demand.

During the transition period, although the nominal income of the population increased, this increase was not viable; in reality, the pensioners and employees became poorer than during the first year of the period, the real average pension did not exceed 88.4% of its value registered in 1990, and the real net salary was higher than the reference period only in 2007. In 1990-2007, the agriculture had an important share in the population income and related to the consumption it manifested by a high level of self-consumption – a strange evolution of the income and expenses in a functional market economy.

Until 2002, the most important share of the household expenses was held by food expenses, followed by non-food products and services. After this year, we witness a change in the expense structure, mainly due to the significant increase of the utilities prices and the easy access to bank loans, this resulting in an increase of the monthly expenses for installments due to the acquisition of long-term use goods. The economic growth, felt after 2000 by an increase of the population income and the purchasing power, created the possibility for the population to increase the expenses for the payment of luxury goods and services, changes which outline an intensified trend towards the human dimension of the development. At the same time, since 2004 one can notice the improvement of the food quality, having a slight contribution to the improvement of the life standard.

Based on a significant economic instability, in the period 1990-2000, poverty, a negative phenomenon also implying the risks of social exclusion, producing serious effects on the human development, also increased and, since 2001, its evolution has had a decreasing trend, natural consequence of the sustainable economic growth. The groups that are most exposed to the

poverty risk are: rural households, young and very young population, households with numerous members, the ones led by a self-employed member in the agricultural sector or who has a low educational level and the roma population. The increase of the access of these groups on the labor market might have a significant contribution to poverty reduction.

In the period 1990-2007, the structure and volume significantly changed due to the reduction of the total population and the population at work age, major restructuring resulting in an increase of the unemployed persons and pensioners. Romania's employed population lost almost one third of its volume, while the occupied population diminished by more than one fifth. The occupancy in the primary activity sector and the economic growth were in a reverse relationship in Romania throughout the entire period of transition, fact that proves the role played by the Romanian agriculture in the periods of crisis for a part of the population remaining unemployed. In the period characterized by economic instability (1990-2000) the activity and occupancy rates significantly decreased and in the period of continuous economic growth these rates improved, while the unemployment rate diminished. Despite this progress, the occupancy rate of the population having the proper age for work is much lower than the value of 70% proposed by UE as target for 2010.

## Conclusions

In the light of the information provided above, the answer to the question: "Did the major transformations having taken place in the Romanian economy have a positive influence on the human development of our country?" comes naturally: before 2004, we cannot speak of a sustainable human development. As long as the growth is based on massive population losses, the development is not sustainable.

What will the future bring? Has our country learnt from its mistakes, from the obstacles it overcame? Is it capable to continue to produce, under global crisis conditions, positive effects with regard to the development? The current crisis reflects the difference between theory and practice in terms of sustainable development, economic growth, etc. The shaking capacity of the most developed economies, with high productivity and competitiveness, to withstand crises and shocks, proves to be fragile in front of financial problems and this is a proof of the lack of sustainability.

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## Aspecte privind dezvoltarea umană în România în perioada de tranziție la economia de piață

### Rezumat

*Acum douăzeci de ani, țara noastră se întorcea către o economie de piață funcțională, încercând să lase în urmă aspectele economiei planificate. Restructurarea economiei românești, privatizarea în general, lipsa de coerență în deciziile economice și în aplicarea acestora au făcut ca drumul către o economie de piață să aibă multe suișuri și coborâșuri, iar scopul final a fost atins de două ori mai greu decât în alte țări foste socialiste. Acest fapt a avut repercusiuni și asupra dezvoltării umane: migrația populației a sporit, sporul natural s-a menținut negativ, mulți dintre indicatorii sănătății s-au deteriorat, iar educația se reformează perpetuu. Celelalte aspecte ale dezvoltării umane au cunoscut evoluții diferite în timp. Totuși, începând cu anul 2004, țara noastră trece în contingentul țărilor cu un grad ridicat de dezvoltare umană (0,800). Articolul de față își propune să identifice câteva aspecte ale dezvoltării umane din România în perioada tranziției către o economie funcțională.*