The Impact of SOP HRD 2007-2013 on the Romanian Labour Market

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Abstract

The end of the 2007-2013 programming period requires a detailed analysis of the effects that the implementation of European-funded projects has had on the allocation of resources and on the structure of production. Since labour is considered to be a mobile factor of production, interconnected within the structure of production, any intervention that modifies its structure will have long term effects on economic growth. Thus, in the current article, the evolution of the quantitative and qualitative indicators regarding the impact of the Sectorial Operational Programme Human Resource Development will be analysed, the main objective being the assessment of the magnitude of its effects on the structure of the labour market.

Keywords: *structural funds; labour market; Sectorial Operational Programme Human Resource Development; 2007-2013 programming period; European Union*

JEL Classification: *E02; E24; E61; G01; H11; J21; J24; Y10*

Introduction

The SME sector in Romania is proving to be representative for the Romanian business environment; the share of this sector in terms of number of employees, turnover and gross added value in the non-financial private sector is confirming this status[1]. For this reason, it is seen as the engine that can and must be used for the recovery of the Romanian economy in the post-recession period.

The way in which the encouragement of the development of the SME sector can be addressed can be divided into several categories, in terms of the types of instruments used and their consequences. Among the most important tools are the fiscal and monetary policy and government transfers in the form of grants. State fiscal policy is reflected in the form of the tax burden felt by entrepreneurs and in the time required to pay taxes, in other words the magnitude of bureaucracy.

On the other hand, monetary policy has a much wider indirect impact on the business environment. Normally, the interest rate should be consistent with the consumer preferences in a

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[1] Pîslaru, D. et al, *The Contribution of SMEs to Economic Growth – Present and Perspectives*, Bucharest: Economic Publishing House, 2012, pp. 37.

society, influencing the allocation of resources and therefore the modifications of the arrangement of the factors of production in the structure of production. When there is an intervention that leads to the increase of the money supply, businesses face intertemporal calculational chaos[2][3] and inflation[4].

However, this article is not focused on explaining economic crises or changes in the production structure, these topics having been discussed extensively on other occasions[5][6]. The main goal of the article is to study how punctual intervention on a factor production, by attracting structural funds, can influence the resource allocation mechanism and the business environment.

SOP HRD 2007-2013 Accomplishments

For this analysis, the chosen production factor was labour. In the production structure it is a relatively non-specific factor, characterized by a high degree of mobility. What must be remembered is that within the production structure the three factors of production are arranged in stages to produce consumption goods, in accordance with time preference and interest rate. Therefore, an intervention at the level of a production factor, i.e. the most mobile factor, generates changes in the production structure, which will affect long-term economic growth and prosperity[7].

In this context it is interesting to study the quantitative and qualitative impact that the absorption of structural funds has had on the labour market in Romania, through the program that targets this production factor - the Sectorial Operational Programme - Human Resources Development (SOP HRD).

The Sectorial Operational Programme Human Resources Development had, for the 2007-2013 programming period, among its main objectives, the increase of the quality of social infrastructure, regional devepment and increasing the competitiveness of regions as a location for business. Therefore the intention of the authorities to intervene in the structure of the demand and supply of labour can be easily noticed. Out of the seven priority axes, two were chosen for the study of this type of intervention: Priority Axis 5 - Promoting active employment measures and Priority Axis 6 - Promoting social inclusion. These two axes were chosen based on the results that the implemented projects should have had on the labor market and the place they occupy in the ranking of priority axes of SOP HRD, according to the analyses deleveped by the Romanian Government.

Analysis of Priority Axis 5: Promoting active employment measures

Priority Axis 5 ranks first in terms of number of approved projects (858 projects approved until 31 December 2012, i.e. 28.44% of the total) and in terms of the number of contracts signed by the end of 2012 (694 projects or 28.33% of total)[8].

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[2] Pătruți, A., *Capital Goods, Time Preference and Economic Crises: An Analysis of the Structure of Production.* Bucharest. PhD Thesis, 2015.

[3] Pătruți, A., Topan, V., Time Preference, Growth and Civilization: Economic Insights into the Workings of Society, *Journal of Scientific Papers: Economics and Sociology*, Vol. 5/2012, No. 2a, pp. 45-56.

[4] Rothbard, M.N., *Power and Market. Government and the Economy.* Auburn: Ludwig von Mises Institute, 2006.

[5] Pătruți, A., *op cit.*

[6] Pătruți, A., Tătulescu, A., Structural Funds as the Solution to the Present Crisis: Romania - A Case Study, *The Review of Social and Economic Issues,* 1(2), 2015, pp. 50-73.

[7] Pătruți, A., *op cit.*

[8] Romanian Government, *2007-2013 Human Resource Development Sectoral Operational Program. Annual Implementation Report 2012*, Bucharet: Romanian Government, 2013, pp. 110.

Under this axis, by the end of 2012, 362 completed projects had been recorded and the contracted value of the European Social Fund was of approximately 90 million, while the paid amount was of 36.8 million euro. This information translates into an implementation rate of 40.87%.

Among the indicators used to express the efficiency of the implementation of this axis there are two indicators that registered problems: "the number of participants in the integrated programs in rural areas" and "the share of participants from rural areas who found a job" for which there were deficiencies in meeting the planned targets.

Table 1. Number of participants in the integrated programs in rural areas, under PA 5, SOP HRD

Year	Number of participants in the integrated programs in rural areas	Target
2007	0	-
2008	0	16.500
2009	3.174	33.100
2010	12.122	54.600
2011	23.661	79.100
2012	31.721	106.500
…	…	…
2015	-	150.000

Source: Romanian Government, 2007-2013 *Human Resource Development Sectoral Operational Program. Annual Implementation Report 2012*, Bucharet: Romanian Government, 2013

According to the Implementation Report, the targets for the number of participants were not achieved because of the characterstics of the target group, stating that:

> "it generates significant difficulties for applicants with contracts undertaken: people who have either passed or are approaching retirement age, people who have no training level or have a limited level of competence or knowledge."[9].

Table 2. Share of certified participants from rural areas in integrated programs, who obtained a job, under PA 5, SOP HRD

Year	Share of certified participants from rural areas in integrated programs, who obtained a job	Target
2007	0	-
2008	0	10%
2009	0	10%
2010	1,89%	15%
2011	3%	15%
2012	5%	15%
…	…	
2015	-	15%

Source: Romanian Government, 2007-2013 *Human Resource Development Sectoral Operational Program. Annual Implementation Report 2012*, Bucharet: Romanian Government, 2013.

Within the SOP HRD Annual Implementation Report for the year 2012, in the evaluation of the indicators related to each priority axis, the part for AP 5 states that:

> "The low rate of growth of the indicator 'Share of certified participants from rural areas in integrated programs, who obtained a job' is generated by difficulties in finding a job due to the economic crisis. "[10]

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[9] Romanian Government, *op.cit.*, pp. 115.
[10] Romanian Government, *op.cit.*, pp 113.

Two conclusions may be drawn from the developments recorded for the two aforementioned indicators. First, it appears that people included in the target groups didn't consider the incentives sufficient in order to take part in training programs. In this case it is possible that the "trade-off" between leisure time and the benefits expected to be obtained by participating in the programs was not considered, ex ante, as positive by prospective participants, i.e. they found it more profitable not to work or to be day laborers, than to acquire a new set of skills. This may be due, in addition to psychological factors, especially to the system of incentives created by the state through welfare payments.

Secondly, we may draw a conclusion about the effectiveness of these programs, based on the second indicator. Empirical data show that out of the total number of participants, 5% have found a job in 2012, which means about 1586 people, which is the highest level in the reported period. Thus, the huge gap between bureaucratic targets and the actual labor market demand for skills obtained from training programmes may be noticed.

The small number (less than planned) of people with new skill sets who were successfully reintegrated into the labor market could be caused, firstly, by the fact that there was no market demand for the new skills acquired through the programme. In other words, the intervention was not in accordance with the market requirements, as economic theory states[11] [12] [13] [14] [15] [16]. Unemployment in times of crisis is a normal phenomenon in economic terms, and its pace its decline should not be artificially stimulated by such programs. Job creation is stimulated in order to reduce social costs, but it is possible that the companies that have received funding prove to be unprofitable, having appeared on the market because of the artificially created conditions. It is therefore possible that newly created jobs will disappear after the implementation of the project. The same is possible from the perspective of the unemployed persons who participated in retraining courses: they develop a new set of skills that, in the medium and long term, might not be demanded on the labour market.

Thus, on the one hand, labor is drawn into inefficient production processes, and on the other hand, the structure of the labor supply changes, which means that there could be areas where the labour supply is oversized and others where there are shortages of skilled workers. The logical consequence is that wages will be adjusted in line with these trends, which will generate, in the view of authorities, the need for further interventions that will further distort the labor market.

Analysis of Priority Axis 6: Promoting social inclusion

The second priority axis that was analyzed is Axis 6: Promoting social inclusion. In 2012, a total of 20,511 participants in training / retraining programs for vulnerable groups were registered. The Implementation Report details the progress recorded for two indicators: the number of participants in training programs dedicated to specialists in social inclusion and the number of jobs created by social economy structures, where the targets for 2012 were exceeded.

[11] Von Mises, L., *Economic Policy: Thoughts for Today and Tomorrow.* Bucharest: Ludwig von Mises Institute Romania, 2010.

[12] Von Mises, L., *Bureacracy and the Impossibility of Economic Calculation in the Socialist Commonwealth.* Bucharest: Ludwig von Mises Institute Romania, 2006.

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[15] Von Mises, L., Economic Calculation in the Socialist Commonwealth. *Archiv fur Sozialwissenschaftern,* Volume 47, 1920.

[16] Rothbard, M.N., *op.cit.*

However, issues were identified for two other indicators: the number of social economy structures that was set up and the number of participants enrolled in training / retraining programs for vulnerable groups.

Table 3. The number of social economy structures set up through SOP HRD

Year	The number of social economy structures that were set up	Target
2007	0	-
2008	0	92
2009	11	190
2010	73	310
2011	144	450
2012	261	605
2013	346	770
…	…	…
2015	-	830

Source: Romanian Government, 2007-2013 Human Resource Development Sectoral Operational Program. Annual Implementation Report 2012, Bucharet: Romanian Government, 2013.

The definition provided by the documents from the Ministry of European Funds for the social economy structure is "an enterprise whose main purpose is to have social implications, rather than generate profit for owners or partners". According to the documents that promote measures for this sector, social economy structures operate on the market by providing goods and services in an entrepreneurial and innovative manner, while profits are directed towards social purposes.

First of all, the use of these terms implies a contradiction: the pursuit of entrepreneurial activities cannot be pursued with the goal of obtaining a social impact instead of profits. According to economic theory, the goal of entrepreneurs is to obtain profit. This is the reward they receive for taking risks by starting a business. Profit is the signal that the goods and services offered by the entrepreneur effectively and efficiently meet consumer demands on the market. Thus, profit is the signal that resources are allocated optimally and that consumer needs are efficiently met.

Secondly, the consequences of encouraging the emergence of social enterprises on the market by providing grants should be analyzed.

Since obtaining profit is not the goal for this type of enterprise, normally, people with entrepreneurial spirit will not consider it appropriate to invest in such a project. Incentives are however distorted if this type of projects is made to seem more attractive. There will be an incentive for inefficient entrepreneurs to enter the market which will have two main consequences: prices will increase due to the rise in the demand for resources and these inputs will be blocked in inefficient production processes.

An interesting aspect that emerges from the data presented in Table 3 is that despite the allocation of structural funds, annual targets for the number of established economic structures have not been achieved, the 2012 level being below 50% of the assumed target for that year. Moreover, even by summing up all social economic structures that were set up in the 2007-2012 period, the target for 2012 would not be met. One possible explanation for this phenomenon is that these investments do not seem attractive for the target group, which is logical in economic terms.

On the other hand, from this perspective, the fact that the targets for this indicator have not been met involves a smaller negative impact in terms of resource allocation, than if the targets had been achieved.

The Importance of the Self-Regulating Mechanism of the Market

Why is the self-regulating market mechanism important in the case of the labor market? The main reason is that it ensures the optimum allocation of resources in production processes and the way in which inputs are interconnected within the structure of production. The easiest way to understand this concept is through an example.

Suppose there is an economy with 100 jobs that are occupied by secretaries, who use 100 typewriters. If, as a consequence of the intervention on the supply of labor, there is a change in the incentive system that makes being a writer more attractive (through training, stimulating job creation in the literary sector, etc.), part of the workforce will reallocate towards this sector. If we assume that one third of the secretaries leave their jobs and reconvert professionally, becoming writers, we can identify a number of effects on the structure of production and on the economy as a whole. First, a part of the capital goods used before, namely a third, will no longer be used, remaining blocked in companies because they can not be repurposed. Secondly, after their retraining, the former secretaries will use capital goods in the process of producing books. Finally, what generates the greatest impact is the fact that the demand for writers has been artificially created by state intervention in the market as there was no real increase in demand for the writers' product. In other words, the stock of books produced will not be entirely consumed and writers will realize that, ex post, their professional reconversion was not beneficial.

What is apparent from this primitive example is that capital goods were not used sensibly; some remained stuck in productive processes (typewriters), while other inputs were used for the production of consumer goods for which there was no demand on the market (books). On the other hand, labor was reallocated, through the creation of incentives, to productive processes where they have not been used efficiently. The intervention on labor market had an impact on capital, distorting the existing structure of production.

It should be noted that the theoretical analysis of the impact of SOP HRD was performed assuming that economic operators involved in developing and implementing European funded projects acted on a moral and ethical code of conduct which eliminates any attempt of frauds.

The Impact of SOP HRD and the Evolution of the Labour Market Indicators

In reality, the situation was different for this Sectorial Operational Programme. The problems faced by SOP HRD, in addition to the risk of not achieving the targets set for some indicators, include flaws in the methodology for evaluating and selecting projects. European Commission auditors found deficient evaluation processes, with projects that have been approved despite their unsustainable budgets or which included salaries that were not in accordance with the levels recorded on local markets, as well as acquisitions that were not justified in relation to the objectives stated in the financing application[17].

In 2012, the procedures for reporting and assessing irregularities have found that 5% of the irregularities reported and verified were intentional, in other words, they represented attempts to fraud the system. The situation was not much different in 2013, when the percentage was 4%[18] [19].

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[17] Romanian Government, *op. cit.,* pp. 25.

[18] Romanian Government, *2007-2013 Human Resource Development Sectoral Operational Program. Annual Implementation Report 2013*, Bucharet: Romanian Government, 2014, pp. 31.

[19] Romanian Government, *op. cit.,* pp. 25-26.

Irregularities were identified in audits by the European Commission in 2013 and the Official Decision no. 680 regarding the financial corrections under SOP HRD 2007-2013 was published, through which a financial correction of 25% was applied for this program. Financial corrections affecting European contribution had an impact, of course, on the budget claims, presented in Table 4.

Table 4. Total budget claims from financial corrections that affect european funding, for SOP HRD, in 2008-2013

Year	Value (thousand euro)
2008	0
2009	0
2010	1.940
2011	9.579
2012	247.999
2013	952.923
2008-2013	1.216.329

Source: Romanian Academic Society, *Annual Report of Analysis and Forecas*t – *Romania, 2014,* Bucharest.

These identified deficiencies raise questions about the effectiveness of the whole bureaucratic system for the selection and monitoring of the projects' implementation, which supports the idea that they are approved on the basis of arbitrary criteria.

Maintaining, however, the assumption that removes the impact of corruption and fraud, ceteris paribus, the implementation of projects under SOP HRD should generate positive effects on the labor market. Thus, in the following, data for a series of indicators that reflect the situation on the labor market for employment, unemployment and participation of people in training courses will be presented and analyzed. The empirical study of the impact that the implementation of SOP HRD had on the market will be made based on the available data for 2007-2012, extracted from the Statistical Yearbooks published by the Romanian Institute of Statistics.

Table 5. The structure of employment, divided by age groups, in Romania, in the 2007-2012 period (%)

Year	15-24 years	25-34 years	35-44 years	45-54 years	55-64 years	>65 years
2007	8,3	27,1	26,4	22,4	10,3	5,5
2008	8,3	26,8	26,9	21,7	11,1	5,2
2009	8,1	26,8	27,7	21,3	11,4	4,7
2010	7,8	26,6	28,9	20,8	11,4	4,5
2011	7,4	26,7	30,0	20,1	11,6	4,2
2012	7,0	26,2	30,6	19,9	11,2	4,1

Source: www.insse.ro.

As Table 5 shows, the analysis of the evolution of the employment structure by age groups reveals, firstly, a downward trend for the first age group that is among the target groups of SOP HRD - young people aged under 24. It may be noticed that in 2007-2013 period, young people have come to represent approximately 7.0% of the employed population, falling from 8.3% in 2007. However, a different trend may be observed for the second category covered by projects financed under this program, i.e. persons aged between 55 and 64 years, which recorded an increasing share in total employment. Thus, their share has increased steadily in the analyzed period, reaching 12.2% in 2012.

Table 6. The structure of employment, according to the level of education, in Romania, in the 2007-2012 period (%)

Year	High-level education	Medium-level education	Low-level education
2007	99,1	99,1	80,6
2008	99,4	99,3	80,9
2009	99,5	99,3	82,8
2010	99,6	99,3	84,0
2011	99,5	99,3	83,9
2012	99,6	99,2	84,7

Source: www.insse.ro.

The statitstical data related to the structure of the employed population, according to the level of education, is presented in Table 6, illustrating the share of employees in the total employment for their particular level of education. The study of the structure of the employed population, according to the level of education shows an upward trend for the share of people with low-level education (secondary, primary or no education), which reached 84.7% in 2012, increasing from 80.6 % in 2007. The share of the population with medium-level education remained relatively steady during the period, at a level of about 99.3%, while the share of population with a higher education increased slightly from 99.1% in 2007 to 99 6% in 2012.

Table 7. Registered unemployed persons and the rate of unemployment, in Romani, in the 2007-2012 period

Year	Registered unemployed persons	Unemployment rate (%)
2007	367.838	4,0
2008	403.441	4,4
2009	709.383	7,8
2010	626.960	7,0
2011	461.013	5,2
2012	493.775	5,4

Source: www.insse.ro

From the analysis of the number of registered unemployed persons and of the unemployment rate in the period 2007-2012, illustrated in Table 7, the impact that the economic crisis had on the labor market in Romania may be easily noticed. The highest levels were recorded in 2009 and 2010, with 709,383, respectively 626,960 registered unemployed persons, while the unemployment rate was 7.8% and 7.0%.

Table 8. Persons who attended trening programmes, in Romania, in the 2007-2012 period

Year	Total	Trening courses financed from other funds than the state budget (completed courses)
2007	64.093	1.432
2008	59.703	2.258
2009	44.347	911
2010	39.987	1.702
2011	54.751	10.210
2012	47.733	7.591

Source: www.insse.ro

Another aspect directly targeted by some of the projects funded under SOP HRD is the number of people who attended training courses and then found a job. Data on the changes in the number of people who have completed training courses financed by other funds than the ones from the state budget, which can be found in Table 8, reveals the absence of a clear and identifiable trend. What is interesting to note is that in 2009 and 2010, when the highest rates of unemployment were recorded, the number of people who attended such courses reached one of the lowest levels, of 911 participants. It is also important to highlight the low share which represents the number of participants in such courses in the total number of participants in training courses, representing an average 2% out of the total.

Table 9. Unemployed people, by age groups, in Romania in the 2007-2012 period

Year	Total	<25 years	25-29 years	30-39 years	40-49 years	50-55 years	>55 years
2007	367.838	65.217	33.105	98.432	92.548	51.658	26.878
2008	403.441	71.215	36.625	101.369	101.799	59.190	33.243
2009	709.383	109.928	61.826	183.547.	193.897	102.948	57.237
2010	626.960	99.142	47.671	151.632	175.945	91.814	60.756
2011	461.013	81.911	35.494	108.536	119.909	58.564	56.599
2012	493.775	87.261	37.884	112.124	129.942	60.688	65.876

Source: www.insse.ro.

The effects of the economic crisis on the labor market are reflected in the statistics related to the number of registered unemployed persons, presented in Table 9. In their case, the highest levels were recorded in 2009-2010, for all age groups and as a total. Thus, the highest number was registered in 2009, 709 383 people in total. The sensitive two age categories, young people under 25 and people over 55, recorded increases of over 60% in 2009 compared to 2008. The indicator reached a total of 109,928 for young people and 57,237 for people aged over 55 years. For both age groups, the number of registered unemployed persons, although it followed a downward trend after 2009, did not reach levels lower than before the economic crisis.

Table 10. Employed people who received unemployment benefits, by age groups, in Romnia, in the 2007-2012 period

Year	Total	<25 years	25-29 years	30-39 years	40-49 years	50-55 years	>55 years
2007	367.838	65.217	33.105	98.432	92.548	51.658	26.878
2008	143.549	24.743	9.884	34.252	42.011	22.840	9.819
2009	435.497	61.794	36.455	110.380	128.312	67.103	31.453
2010	329.640	49.189	21.448	71.827	103.127	53.830	30.219
2011	182.538	38.523	13.423	38.372	50.591	23.459	18.170
2012	194.473	44.264	13.896	38.694	52.905	23.767	20.947

Source: www.insse.ro.

Table 10 shows that the evolution of the number of registered unemployed persons, recipients of unemployment benefits during the period under review was similar to that relating to the previous indicator. According to the Romanian legislation (Law 76/2002 on unemployment and developing labour supply) they receive unemployment benefits for a maximum period of 12 months. So this indicator, like those shown in Tables 7 and 9, provides an overview of the short-term, with the possibility that the number of inactive persons on the labor market is higher.

However, we may observe that in this case the highest values for all age groups were registered in 2009 and that for the two age groups identified as important, the values have not reached, in 2011 and 2012, the levels registered before the economic crisis.

Table 11. SOP HRD rate of absorbtion, for the 2007-2013 period

Year	Rate of absorbtion (%)
2007	0
2008	0
2009	0.21
2010	1.57
2011	8.39
2012	32.01
2013	47.04

Source: Romanian Academic Society, *Annual Report of Analysis and Forecas*t – *Romania,* Bucharest, 2014.

Comparing the evolution of the absorption rate related to SOP HRD declared in the annual implementation reports of the program, presented in Table 11, with the related quantitative indicators of labor market, we can notice that the increasing absorption has not had a notable positive impact on the indicators[20].

Conclusions

In conclusion, the labor market in Romania was visibly affected by the economic crisis, the effects being felt in the unemployment rate and the number of registered unemployed persons, which confirms the theoretical analysis from the first part of this study. Although SOP HRD was presented as a solution for re-stabilizing the labour market, the theoretical analysis revealed that such intervention distorts the market, having a negative impact on the business environment.

The analysis of empirical data did not provide conclusive results, since the evolution of the indicators was influenced by several factors, besides the implementation of the projects financed under SOP HRD.

However, the main conclusion of this analysis is that such interventions on any of the production factors have an impact on the entire structure of production, generating a new allocation of factors of production that is not adapted to the needs and demands of the market. These issues must be taken into account by political decision-makers in order to create the necessary conditions to encourage economic growth and development by limiting interventions on the market, and thereby allowing the optimal allocation of resources to take place, based on business principles and economic calculation.

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[20] Elaborating an econometric study, especially regressions and correlations, could have indicated and exact coefficient of correlation, but the number of necessary entries in order to generate such a study was not fullfilled, due to the lack of availabe data.

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