

## LABOR MARKET AND SUSTAINABLE DEVELOPMENT IN THE CONTEXT OF THE ‘NEW NORMAL’ – THREATS AND OPPORTUNITIES

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### **Abstract**

*The good functioning of the labour market is prerequisite in achieving the goals of sustainable development. In our paper, we present the discrepancies between the demands for a good functioning of EU labour markets, which means low unemployment rates, inclusiveness, and higher equity, all in the context of achieving the goals of sustainable development and of the Green Deal, while new threats and opportunities emerge because of the pandemic outbreak. The slight recovery of the jobs’ market after the economic-financial crisis is threatened by the current pandemic. We suggest that the ‘new normal’ might be an opportunity for turning by putting in place better policies and deepening labour market reforms, that the current concern-rising market segmentation could be turned into an opportunity for creating new jobs. This involves better coordination and cooperation between public and private stakeholders in creating targeted frameworks for addressing specific issues identified over the post-crisis period, and initiating new flexible approaches for encouraging the return to work for all categories of individuals active on the labour market.*

**Keywords:** labour market, employment, unemployment, sustainable development, coordination and cooperation public-private stakeholders, COVID-19.

**Classification JEL:** J01, J08, J60, J68,

### **1. Introduction**

The post-crisis period has brought with it compelling evidence that sustainable development worldwide and the inclusive goals of the Europe 2020 Agenda need careful consideration of the developments in the labour market.

While the global financial-economic crisis had destabilizing effects for the entire EU-28/27, these changes triggering increased unemployment were not homogenous in all member-states, and led to divergent unemployment trajectories all over the affected countries [2]. One suggestion is that these differences leading to heterogeneity are due to the different labour market reforms, policies, and actions at the level of member-states [1]. Both mentioned studies highlight that a role might be played by the different institutional arrangements operating at the level of the labour market.

The post-crisis period has emphasized with its changed adjustment dynamics for both employed and unemployed that economic growth, sustainable development, and achieving the inclusive goals at EU-level depend on labour market development and outcomes. We consider that labour market outcomes, in the context of the present pandemic, and in the post-pandemic future will need to rely even more heavily on strengthened institutions and institutional arrangements. In this context, we propose as important the following discrimination:

Labour market development means and implies permanent adjustment of the policies to the specific evolutions on the national, regional, local and nowadays even virtual labour markets, relevant for the latter being crowdworking, and platform workers, acting in the gig economy which became more relevant in the aftermath of the crisis.

Labour market outcomes mean and imply that the above-mentioned policies, measures and strategies deliver the best results depending on a series of factors like educational level of the workforce, either active or inactive in the labour market, degree of specialization in the labour market, labour market segmentation, average age of the workforce, etc.

From among the above-mentioned, we regard labour market segmentation, and labour market overspecialization and specialization as potential advantages that could turn on medium- and long-term into potential threats.

The literature on labour market adjustments examines these evolutions based on macroeconomic models, such as the model developed based on Okun's law formula [4], [5] in analyzing how various countries mitigated unemployment, while other studies focused on significant policy changes. One such instance, is the case examining how German labour policy has changed regarding wages, by implementing as of 2015 a statutory minimum wage, which signaled a significant shift in the country's labour market policies. The rationale for this significant labour market reform was covering larger groups of employees, except for youths under 18, apprentices, trainees, and/or interns, and the long-term unemployed in their first 6 months after starting a new job, along with workers in the non-profit sector and voluntary workers [3].

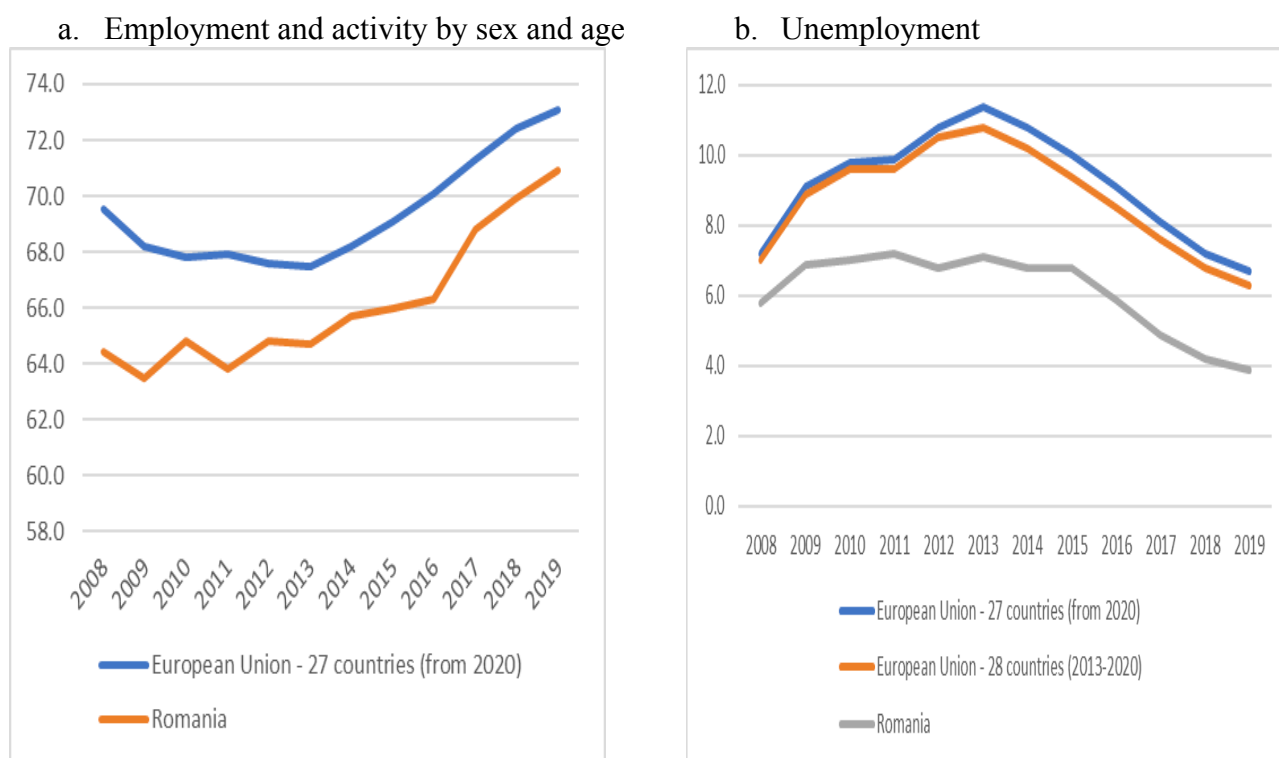
By the time of the crisis' outbreak, the general trend was of decreasing unemployment, even though labour market segmentation was becoming increasingly more marked, associated with polarization of jobs and the emergence of various types of self-employed and freelancers taking jobs in the virtual labour market.

## **2. LABOUR MARKET, SUSTAINABLE DEVELOPMENT, AND THE 'NEW NORMAL'**

The fact that the labour market responds with delay and takes longer to adjust to dynamic changes in the business environment and the economy, was proved by the slow recovery of unemployment for all categories of unemployed over the period 2008-2019. Nevertheless, it also emphasised that the unemployment gap continued to increase on the most relevant dimension in the context of the knowledge-based economy pursuing sustainable, inclusive, and smart growth, respectively the educational level gap. Most recent findings show that unemployment rates varied according to the 'traditional' differences between Old Member-States, Former Member-States of Cohesion and Convergence, and New Member States, with a slight advantage in favour of NMS where the unemployment rates were slightly lower, but not in all cases.

This fact, bears however some concerning findings in the case of Romania, if we consider the activity rate, and the unemployment levels as compared with the EU-28 averages. First findings show that the activity rate in Romania was by 6 percentage points lower than the EU average, and this is a possible explanation also for the low unemployment rate. Moreover, the employment rate is below by 4 percentage points compared with the EU average, implying that there are certain concerning imbalances as regards the operation of the labour market and access to the labour market, especially for the categories of population included in vulnerable groups (Figure 1). At the same time, Romania has succeeded despite these drawbacks to follow the overall trend at EU level as regards employment and employment opportunities according to the educational level.

Educational level will mean increasingly more that tertiary education will become almost compulsory for the employment opportunities, as the labour market became more demanding, and pushed downwards available jobs for persons with secondary education. This economically active segment becomes increasingly more assimilated with jobs that were initially for lower educated individuals, and thus increase labour market polarisation. The phenomenon, occurring already before the current changing context triggered by the pandemic, will continue, as the pandemic could be regarded as changing the rules for both employers and employees as regards working time, location of performing/delivering the work, and quality and productivity of the work performed by employees in sectors as different as public administration, financial and banking, or education and research activities, etc.



**Figure 1:** Employment Rate and Unemployment Rates in EU-28/27 (2020) and Romania over the period 2008-2019

**Source:** Eurostat [une\_rt\_a]

The educational level, and employment opportunities are strongly correlated and will need increased attention in the future, as the *Green Deal* initiatives, the sustainable development goals and the general demand of the public and private sector alike demand better skills, upskilling and proficient use of digital technologies on a wider scale and for a diversified range of occupations and jobs.

However, the unemployment gap by level of education increased from 5.8 percentage points to 8.6 percentage points at EU level over the period 2002-2018. In 2018, the unemployment rate was by 12.5% for individuals' with low and secondary education levels, and by 3.9% for individuals with tertiary education. This is in line with the reality that labour market polarisation is increasing. If, we consider the *Gini* coefficient for the period 2008-2019 as indicator of worsened labour market conditions for certain segments of the population within the EU-28/27, we will find that the values of the index have tended to increase not only in Romania, but also at EU-28/27 level, under the appearance of a certain constant evolution of the index (Table 1).

The *Gini* coefficient evolution will need to be addressed in strong correlation with the goals of the European Pillar of Social Rights, as the increased polarisation on labour market triggers increased polarisation of the society, in general, and this is already a concerning development, if we take account also of the political climate where the increase of populist and right-wing movements in the European Union is a matter of concern.

**Table 1** Evolution of Gini Coefficient in Romania, as compared with the EU-27 level

	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>European Union - 27 countries (2007-2013)</b>	30.5	30.8	30.5	30.5	31.0	31.0	30.8	30.6	30.8
<b>Romania</b>	33.5	33.5	34.0	34.6	35.0	37.4	34.7	33.1	35.1

**Source:** Eurostat, EU-SILC Survey

All in all, the developments by the end of 2019 in EU-28/27 and Romania were determined by the increasingly stronger presence of digitalised and AI-operating technologies, which will accelerate on short-, and medium- and in some instances even on long-term the labour market polarisation, but also by an ageing population, and increasing need of reconsidering the economic environment by taking account of the social implications of economic policies and even activities in the business sector.

In this context, by the end of 2019, a threat originating in China, the outspread of the SARS-COV2 virus has imposed severe lockdowns, and disrupted significant supply and distribution value-chains, and triggered considerable increases in unemployment especially for youth, as the constant downward trend of unemployment as of 2013, reversed almost suddenly to an increasing trend. Before the pandemic, youth unemployment for the age group 15 to 24 was by 14.4%. a decrease by 10 pp from its peak by 24.4% in 2013. As result of the pandemic, it rose to 15.7% in April 2020, and the forecasted deep recession with an 8.3% economic contraction, has determined the Commission to implement a new initiative, the Youth Employment Support. This initiative is the more important, as the evolutions over the second quarter of 2020 have shown considerable decreases in all member-states, including NMS that were regarded as less vulnerable to this type of threat.

The latest data show that while for total unemployment, according to the seasonally adjusted rates Romania (5.3%, August 2020) remains below the European threshold by 7.4% in August 2020, there was an increase by 1.1 percentage points for the EU-28/27 between August 2019 and August 2020, and one by 1.5 percentage points for Romania (3.8% in August 2019). This shows that there still are significant weaknesses on the Romanian labour market, and that they are more concerning when we analyse the evolution of unemployment for youths. While in August 2019 the unemployment rate of youths with ages between 15 and 25 years of age was by 14.8%, in Romania this indicator was by 17.5%, and in August 2020 the same indicator was by 18.1% in the EU-28/27, and by 16.9% in Romania in June 2020. This apparently decreasing trend poses some questions, as it might be related to the fact that during the crisis, the youths aged between 15 and 25 years of age were more willing to accept temporary jobs as deliverers for food catering companies, and possibly more involved in providing low-skilled services, below their level of skill.

However, we consider that the vulnerability on the labour market is higher in this period for all economically active persons, as economies attempt to adjust to the ‘new normal’. Both public and private sectors will be increasingly more tempted to rely on up to now unconventional styles of work – from the ‘work from home’ initiatives to speeding up the processes of automation and digitalization of their activities. Low-skilled and low-medium skilled jobs are threatened with few exceptions, among which we count the caretakers for disabled or elderly, or those willing to provide delivery services for various food catering companies etc.

The overall trend, at EU-28/27 level, during the post-crisis period, was of decreasing unemployment over the period 2012/2014 up to 2018/2019. However, there were some concerning issues pointing to a period of recession, as the post-crisis did not mean immediate recovery, on the labour market, and it looked as if it was going to be compounded by the consequences of the somewhat unexpected Brexit.

The positive developments were, nonetheless, somewhat uncertain with various difficulties due to the high heterogeneity of the EU-28/27 labour market, and to the difficulties in achieving improved coordination as regards labour market policies at EU-28/27 level. We consider that the issue of this important institutional mechanism – coordination – needs better analysis and improvement, both at the level of the decision factors elaborating policies and strategies targeting the labour market, and at the level of the main sectors, and industries accountable for the highest employment shares at EU- and national, and regional level.

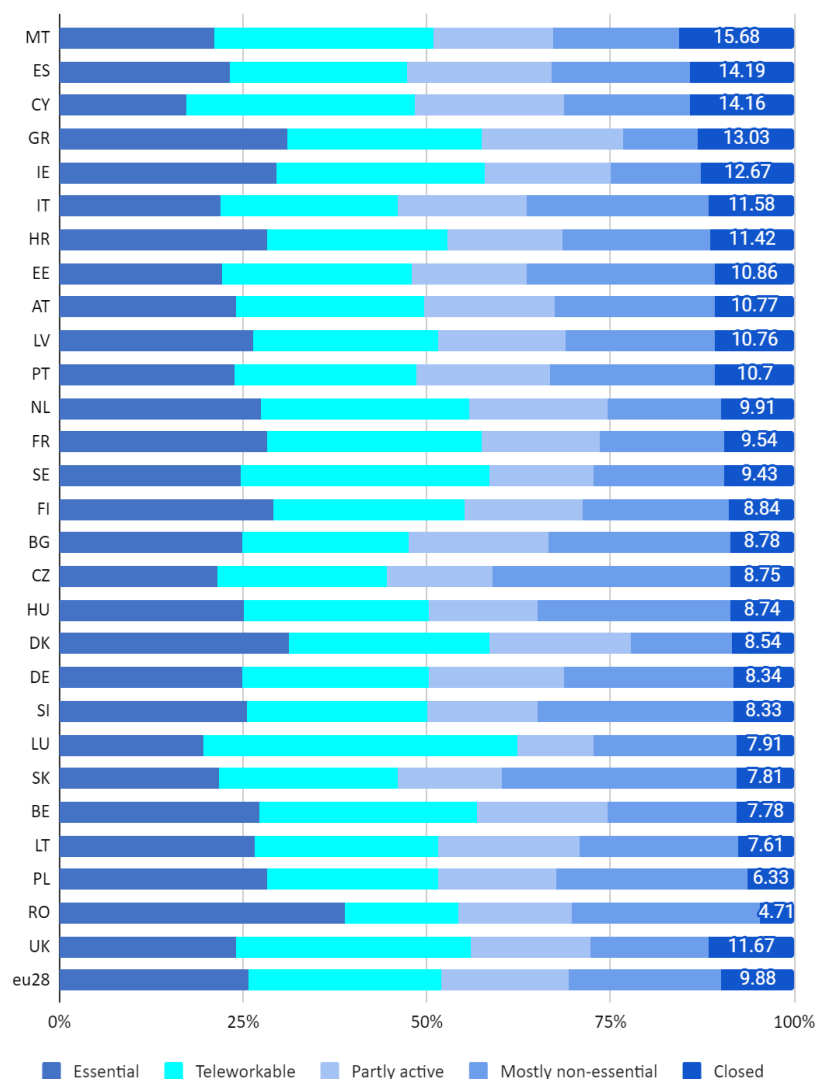
The beginning of the years 2000 were already signalling some worrying trends, as regards the relationship between sustainable development and labour market. Joblessness was a chronic phenomenon in the western member-states, while the New Member States were still learning to cope with evolving in the (still) new environment of free market economy.

In the post-crisis period up to the pandemic outbreak, experts have identified new dynamics and changes regarding employment/unemployment at EU-level, which could be also be observed in Romania, however at a smaller scale. The new threats seemed to be overspecialization and strict specialization, as too much specialization could also mean that after initial successful entry on the labour market – there could appear signs of decreasing demand for the respective specialization in the subsequent five to ten years, thus increasing the risk of unemployment. Therefore, the necessary shift, in the post-pandemic period will be increasingly on smart and adaptative specialization for the industrial sectors, but also for all other public and private economic sectors within the EU.

The current ‘business model’ of the EU, and even worldwide becomes obsolete, as sustainable development goals targeting the labour market have deep social components and implications going beyond GDP. There are more questions that need to be answered in this respect.

The developments during the pandemic have shown specific trends about labour market developments from initiatives of protecting jobs and creating new jobs, to concerns about demand and supply in specific sectors, the health sector being faced with own challenges in this respect in all member-states of the EU-28/27.

First, we take account of the five categories of sectors selected for the labour market analysis according to the European Commission in the report about the employment impact of COVID-19, respectively: (i) essential and fully active sectors; (ii) active but via telework; (iii) mostly essential and partly active, not teleworkable; (iv) mostly non-essential and inactive, not teleworkable, and (v) closed. Most EU- countries have a share of 10% labour force employed in the forcefully closed sectors, but it is estimated that punctually, countries with higher employment rates in such sectors will suffer a higher impact.



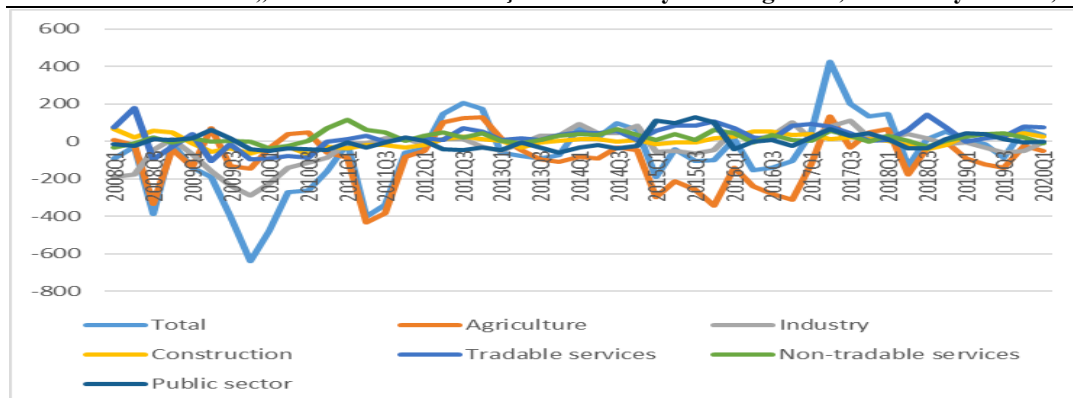
**Figure 2** Distribution of employment across the 5 categories of sectors, according to likely impact of COVID-19

**Source:** European Commission, Science for policy briefs, 2020, data from annual LFS data, 2018

Romania is one of the countries where essential activities have a higher share, and it is noticeable, that the teleworkable activities are less represented than in the other EU-28/27 countries. Among the noticeable heterogeneity reasons are the level of national, and more specifically seasonal specialisation, and even the managerial culture that still needs improvement at country level.

This is one of the main issues, respectively following unemployment according to the heterogeneity and specialization criteria, where the specialization conditions the heterogeneity and even more severe impacts during this period.

If we analyze the situation for Romania, considering the confinement measures decreed, we notice that the effects are major for all industry sectors of the economy (Figure 2), and thus emphasizing the need of continued reform as regards labour market policies.



**Figure 3** Employment change in Romania over the period 2008 first quarter, 2020 first quarter (ths.)

This reflects also the actual concerns when we consider the shares in employment, and how they might reflect on increased labour market segmentation in Romania, when as share in employment the highest were in wholesale-tradable (23%), and the lowest in construction – non-tradable (8%) in the first quarter of 2020. By operating a discriminating analysis, we underpin that the most affected sectors were those forcefully closed and regarded as non-essential.

In May, Romania had about 1.35 million unemployed, at approximately more than 5 million employees in the economy. Jobs, even if stalled by technical unemployment or by the fact that the sector is only partially opened are still available in IT, in food wholesale and retail, and as of July even in restaurants, though these function with only half of the capacity, are subjected to restrictions, that could be even more harsher in the next period (during autumn and winter) and only few jobs were available in textiles and constructions.

Moreover, considering the education, skilling and upskilling needs, technical specializations provided by the state and private universities cover about 10.000 thousand, out of the 15.000 and over experts required by the technical sectors.

The current trend, indicates for EU-28/27 a constant increase in the demand for skilled and upskilled labour force with digital competences, able to operate in the digitalised virtual environment. Nonetheless, at the level of each member-state, as is the case also for Romania, measures need to be taken for improving chains of cooperation and coordination as regards issues of labour market evolution and functionality in the context of sustainable development and achieving the goals set by the EU 2021-2027 Agenda improved with the Aims of the Green Deal [6].

### 3. CONCLUSIONS

The current pandemic has changed and continues to change the labour market by introducing the ‘new normal’ and the teleworkable jobs at wide-scale in EU-28/27 and worldwide. In this context, and considering the specific reasons for market segmentation, this threat could be changed into an opportunity, if approached in an innovative manner. A first step, is continuing structural reforms on the labour market, along with developing innovative policies, that pursue better coordination and cooperation between the public and the private sector for creating an improved ‘business (social) model’ that takes into account the ‘beyond GDP’ relevant economic and social aspects of the labour market.

The need for improved coordination and cooperation has been proven by the current European Commission initiatives that stress the relevance of coordination and cooperation for all economic sectors, as all are affected by the current pandemic. From among the most sensitive sectors, we mention the transports’ sector as this sector caters to both needs of the public and

private businesses, and to the needs of ensuring individuals' mobility. In this respect, the European Commission has stressed the need for reaching an agreement according to the Re-open the EU platform initiative. This led to the adoption of a Recommendation on a coordinated approach to movement restrictions, that would allow for classifying the regions based on a code of colors as regards the virus threat (green, orange, red and grey). Moreover, there will need to be more clarity and predictability as regards the measures implementing restrictions.

It is a first step, in reopening the economies while attempting to control the spread of the virus, because the impact of COVID-19 on the labour markets in the European Union is a considerable threat especially for the vulnerable segments of the working population.

The evolution of the labour markets in the EU, but also in Romania will depend in the immediate future on the capacity to switch from traditional and usual ways of doing business to more non-conventional ones, including here telework, where it could be observed in this time after the pandemic outbreak that some of the most affected countries were those where telework is still rather new, and not assimilated as a better solution for improving not only economic results of the business, company, but also in the labour market overall.

The pandemic will tend to increase on short-term the heterogeneity, as the measures against COVID-19 will have their first considerable impact on the large and dynamic urban concentrations that are as many local labour markets, and where the highest geographic concentration of employment growth was recorded in the past. This process could lead to advantages mostly for the old and former convergence and cohesion member-states, whereas the new member-states and some southern Europe member-states will continue – if the right policies are not put in place – to suffer due to the pressure of migration for work in the developed member-states, which is more visible in the context of general declining workforce, as the population ageing continues in line with the evolution of the population ageing phenomenon at EU-28/27 level.

Nonetheless, the movement restriction will put a halt also to the mobility of the workforce, and this could be one issue to be taken account of by those member-states threatened by population loss to pursue the draft and implementation of policies that would encourage the former migrant workforce to stay in the country, as is the case for Romania.

The policies for keeping workforce in the country, in Romania, and the efforts of maintaining employment goals in the context of the pandemic will require also improved access to continuing training and education, as significant transitions will occur due to automation for a considerable segment of the labour force, that will need new skills, or upskilling because of accelerated automation and digitalisation.

Thus, the challenges of sustainable development will be compounded by the ones of skilling and upskilling the workforce, and increasing employment rates for vulnerable categories, while the most challenging issue will be the one of setting up new mechanisms of coordination and cooperation between the public and private sector, but also inside these two major sectors for overcoming labour market mismatches.

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