

# THE IMPACT OF THE CRISIS ON THE QUALITY OF LIFE AND SOLUTIONS TO REDUCE THE CRISIS EFFECTS. CASE STUDY: ROMANIA

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**Abstract:** *The economic crisis creates a series of consequences such as loss of jobs, reducing wages, insecurity of the population, reducing standard of living, material hardships, low self-confidence and hope for the better, illnesses, altered human relationships, social protests, ever greater scale strikes, in other words, deterioration of the economic environment.*

*This paper aims to identify possible solutions to improve the effects of the crisis on the quality of life, based on figures from surveys conducted by research firms and the possible correlations to be made between these dates, without attempting to consider that these solutions are unique or the best. The main indicators considered for identifying the negative aspects of the crisis among the population are: the evolution of unemployment, changes in gross domestic product or wage developments in the economy and the share of expenditure linked to the basic needs out of the income earned. Regarding the possible solutions to reduce the population crisis, they are closely related to the credit and monetary policy, and also to the budgetary policy.*

*Under the impact of the economic crisis, the business environment in Romania has suffered. Sub impactul crizei economice, mediul de afaceri din Romania a avut de suferit. Since most investments in 2008 were of foreign origin, the fact that this crisis has affected Romania as well did not surprise anyone. Nowadays Romania's business climate is characterized by lack of direct foreign investments and self funding sources whereas the population declares itself in a large proportion – more than 50% - to be affected by the crisis (1).*

*Effects of the crisis can also be observed in the evolution of consumers' behavior who fearing layoffs and declining revenue, not only turned to buying the same products or to purchase cheaper products, but also to reducing the amount of the purchased products. The quality of social life is essential and strongly related to stimulating economic activity. Satisfaction felt by the consumer will determine the level of consumption and will influence and ultimately decide the supply level. An adequate economic policy in Romania to restore the balance between supply and demand in the market may induce a state of economic recovery. This should be the objective of anti-crisis policies.*

**Keywords:** *crisis, quality of life, unemployment rate, gross domestic product, wages rate, social conditions of life, economic environment*

**JEL:** *F41, F41, J17*

## **1. The quality of life in the current crisis**

The direct impact of the crisis on the population leads to altered social conditions of life. A social indicator for the economic crisis assessment is the *evolution of the unemployment rate*. Given the systemic nature of the global economy, the problems the U.S. economy was confronted with were

felt and widespread in Europe and, of course, on other continents as well. If in 2007, the improvement of the economic conditions, those of the labour market included, resulted in an employment rate of the labour force at European level of 68% and a decrease in the unemployment rate up to 7% unemployment rate, in 2009 the unemployment rate increased by 2.2 percent, reaching 11% in

2010, and the employment rate decreased by 2.5% in the EU.

Another relevant indicator is *the evolution of the gross domestic product*. In 2009 as compared to the year 2008, the GDP decreased by 4.1% for the euro area and by 4.3% on average for the 27 European countries.

Inevitably, the economic crisis effects were felt in Romania as well. Studies have shown that, given the global recession, the number of bankruptcy cases has increased significantly up to the half of the year 2009. In Romania, for instance, the number of bankruptcies increased by 27% during 2008-2009, although 2008 had been a record year in this respect - for companies in Romania bankruptcies nearly doubled in 2008 compared to 2007 and most of them were in the trade. Moreover, there are a number of sectors affected strongly by bankruptcy: trade, distribution, wood and wood products manufacture (412 cases), transport (causes: the increase of fuel prices, which led to the insolvency of small carriers) construction, textile, manufacturing, hospitality sector (causes: poor competitiveness, lack of qualified personnel, poor management strategy) the catering and automotive industry, the areas with the lowest risk, where they recorded the fewest cases of insolvency, are producing and supplying electricity and heat, water and gas, metallurgy, financial intermediation, telecommunications and IT. For example, in Romania since 2008, the number of payments made under conditions of insolvency has increased the production twice and three times that of wholesale and retail trade, construction and only in the construction industry were recorded 10 or more payments in circumstances of insolvency.

In Romania, the crisis in the construction sector has caused problems to companies in the wood industry, leading to lower orders and financial difficulties among companies in the forest administration. The annual

review of working time evolution also revealed that the length of the workweek reflected a clear distinction among the 27: only 13 of the EU countries had working weeks longer than the EU average. The longer working week was recorded in Romania, where full time employees were working, on average, about 41.8 hours a week.

Regarding *the evolution of wages* between 2008 and 2007, all EU countries have recorded increases in average wages agreed in collective agreements. However, the surge in inflation rate has reduced the wages rise set in the collective agreements, from 3.6% in 2007 to 1.3% in 2008 in real terms. In countries where real wages have still continued to grow (and for Romania), increases were much lower in 2008 than in 2007.

It is obvious that there are differences and similarities between Member States in Europe. Yet the satisfaction levels vary significantly among social groups: people with higher incomes, better health status, secure jobs and higher levels of education are generally more satisfied with their lives. Although Bulgaria and Romania have a similar GDP per capita, the level of satisfaction in Romania is much higher than in Bulgaria. Consequently, there is no proportional relationship between national income and level of satisfaction. 70% of EU citizens have a dwelling, and nearly half of them hold it definitively, without any mortgage or loan. The proportion of people with home ownership is much higher in countries of Central and Eastern Europe where, on average, 74% of citizens have total ownership of the housing, the highest proportion being recorded in Romania (87%) -this high percentage of ownership does not translate into a higher quality of housing.

The recession of 2008 has fundamentally changed the living conditions of many European citizens, causing for Romania a decline of the possibilities to provide the basic needs: adequate warming of the house,

an annual holiday, new furniture to replace old furniture, a meal that includes meat, chicken or fish every other day, new clothes and means of taking care of guests at home a meal that includes meat, chicken or fish every other day, new clothes and means of taking care of guests at home - from 30% in 2007 to 26% in 2009, significant differences being perceived throughout the country as well: 25% of the poorest people lack four of six items, while a percentage of 25% of the wealthiest citizens lack only one element. In Turkey, the Former Yugoslav Republic of Macedonia, Bulgaria, Romania, Hungary, Lithuania, Slovakia and Latvia, 25% of the richest people suffer from many

shortcomings than the poorest 25% in Denmark, Sweden, Luxembourg and the Netherlands.

There is an obvious downward trend in Europe from 2007 to 2009 in nearly all states regarding the satisfaction with the level of living. In Romania, this trend is sudden, the largest decline in satisfaction with the level of living were recorded among people of 65 or more who have suffered the greatest decrease in quality of life in general as a result of the fall in the purchasing power of pensions.

Regarding the evolution of the number of jobs, it is shown in the following table (*table no. 1*):

**Table no. 1 Jobs lost and created by sectors in 2009-2010**

<b>Fields of activity</b>	<b>Nr. jobs lost / created</b>
Automobile production	-70377
Financial intermediation	-57417
Public administration and defence	-46802
Trade	-44621
Machinery and equipment production	-42545
Post and telecommunications	-35452
Metallurgy	-23770
Road transport	-22712
Electric equipment production	-21358
Food and drink production	-20466
Financial intermediation	6215
Computer and related activities	6470
Coal Mining	7650
Other economic activities	8592
Post and telecommunications	8860
Electricity, gas and hot water supply	11510
Automobile production	12744
Public administration and defence	13999
Hotels and restaurants	22220
Retail	47157

**Source: adapted from** <http://www.eurofound.europa.eu/pubdocs/2010/16/ro/1/EF1016RO.pdf>.

The Romanian economy has lost more than 370,000 jobs over the last year. *In late 2009, the number of employees had fallen from 4.73 million jobs to 4.36 million. 40% of the jobs lost in 2009 belonged to the*

*construction and industry field. At the end of 2009, the number of employees fell from 4.73 million jobs to 4.36 million. 40% of the jobs lost in 2009 and belonged to the construction industry. After 2005, over a*

third of the new jobs have been created by the state, and personnel costs incurred by public money have doubled the budget. The fact is that the missing 370,000 jobs by the end of 2009 equal the number of jobs created in five years of economic boom.

## **2. Anti-crisis solutions:**

There are a number of protectionist measures to be found in the specialized literature meant to diminish the effects of the crisis. - In his book *Après la démocratie*, Emmanuel Todd (2), considers that when confronted with the "brutality" of the crisis and of the unemployment rise, more and more people were in favour of the strengthening of protectionist measures, starting with a form of "European protectionism "done in the name of" a necessary correspondence between economic and social spaces. " This solution is proposed taking into account the fact that rising wages will encourage consumers to absorb more of the market offered, resulting therefore in real possibilities of production relaunching.

Michel Aglietta (3) believes that, given the current crisis, the adoption of protectionist measures could be a factor that deepens the crisis and brings along the risk of damaging relations between states, this claim is based on the fact that a concerted international action is absolutely necessary for successful implementation of existing measures to halt the crisis. Even if the European protectionism helped the economies of European countries in fighting against the international market, there are factors that hinder the adoption and implementation of protectionist measures in the EU domestic policy, factors resulting from the differences between the economic development of EU countries.

Michel Aglietta believes that Europe has been profoundly affected during this period of crisis (4) because of the absence of a robust and well-based industrial policy, and also due to the promotion of a clear policy against competition coming from outside the

EU. In this context, the research and development policies remain the national ones, generating an unnecessary competition between companies from different EU countries, a process also exacerbated by political sensitivities between countries; EU holds its own responsibility because it supported the fight for the dominant position in the EU through protectionist measures against other areas, America, Asia, this European protectionism preventing firms from moving towards the development of extra-European activities. -

Referring to the book written by Emmanuel Todd, Daniel Bensaïd asks in his article "Keynes et après? (5) "to protect? whom and against whom? If Europe started by adopting social measures of convergence in terms of jobs, income, social protection, labour rights, harmonization of taxation, then Europe might legitimize the adoption of protective measures and not the interests of selfish industrialists and those in the financial environment whom it favours." Europe could help the developed countries in supporting the joint development through agreements with less developed countries in terms of migration, technical cooperation, fair trade. Without these measures, he believes, the protectionism of the rich would have negative consequences upon these developing countries as main effects.

One of the measures put forward in order to reduce the impact of the crises upon the European Union countries, is a European economic recovery plan (6), which has proposed to come not only with supporting solutions for EU countries, but also practical help in this regard.

Thus, the plan devised at the European level aims at using all available means and instruments of action at EU and national level; it is a plan meant ultimately to lead to economic growth and creating jobs by means of the objectives to promote economic recovery and that lead, ultimately, to economic growth and creating jobs.

The strategic objectives of the Recovery Plan were:

- stimulate demand and consumer confidence;
- harmonization of market conditions with the requirements in terms of competitiveness by stimulating economic growth and new jobs;
- stimulate economic activity without affecting the environment security.

To achieve these objectives, there were proposed concrete measures that can be implemented in the economies of EU countries with the aid provided by EU institutions.

*The monetary and credit policy* - is vital when in crisis and must be managed carefully by the bank that carries it out - the European Central Bank ECB. In this respect, the ECB has created a drop in euro zone interest rates to stabilize the markets by lending money to supply banks with cash to help their clients. Similarly, the European Investment Bank EIB will increase by about 15 billion its annual interventions in the EU countries' economies by providing loans to positively influence and lead these national economy out of recession whereas the European Bank for Reconstruction and Development will help the new Member States with 500 million per year to get out of recession and to start the economic recovery.

*Budget policy* – within the national budgets for 2009, and then for 2010 there were measures to be taken requiring an amount of approx. 170 billion or 1.2% of GDP at EU level so as to produce positive effects, and, if possible, long term ones: to boost purchasing power of consumers by improving the functionality of market adoption of emergency measures to strengthen the link between wage-fixing mechanism and the evolution of productivity, employment policy supporting and facilitating labour market transitions, reducing administrative costs.

For blurring effects of the crisis on global business environment, the Government

Strategy for improving the business environment 2010-2011 proposes a number of measures to be implemented with minimal cost: restoring flows of foreign capital, promoting responsible business conduct, reduce trade costs and providing national consulting firms to solve the crisis.

The government provides a series of actions aimed at:

- improving the dialogue by creating public-private consultations designed to ensure greater transparency in the regulations;
- supporting the business environment by encouraging freelance professions;
- developing the cooperation with specialized departments of the central government institutions.

The EU has published recommendations in individual reports on each Member State to achieve the objectives of the annual package "Lisbon". These recommendations have as a major priority the protection of the European citizens regarding the consequences of the financial crisis and the implementation of several policies such as integration, retraining, valuation of professional competencies, especially in what the licensed unemployed workers are concerned.

### **Conclusions:**

Many economists, coming from different socio-cultural spaces, aim at finding further reforms for getting out the crisis. Their dilemma lies in the fact that I cannot answer exactly to what extent the preservation of capitalist structures, as they were promoted through the writings of the interwar reformers can still be possible under current conditions. For Romania, the confidence in overcoming the crisis is still, the lowest in Europe. However, the direction is positive: in 2011 the population confidence index measured by the Consumer Confidence Barometer for the European Commission has recorded an average increase compared to the average of the year 2010, reaching -46 to -54, showing the Romanians more optimistic especially at the beginning of the year.