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Article

Social Investment, Economic Growth and Labor Market Performance: Case Study—Romania

Ramona Olivia Ștefănescu-Mihăilă

Faculty of Marketing and International Business, Spiru Haret University, Bucharest 040042, Romania; E-Mail: mk.ramona.mihaila@spiruharet.ro; Tel.: +40-741-930-436

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Abstract: A few years have passed since the financial crisis began with the bankruptcy of the American Lehman Brothers bank and few dare predict the moment when we will overcome the crisis. Chaotic human resource policy in the Romanian economy and complex taxation have lowered our chances to overcome it. Excessive income tax, massive layoffs, not always dictated by real needs in the private sector, hesitation in the government regarding the reorganization of an oversized public sector and the low productivity are only some obstacles in overcoming the crisis. People are a very important factor in the production process and in the success of a company. It is essential that modern organizations rethink their strategies, make long-term investments, and invest in people. Success and survival on the market greatly depend on the understanding of these facts and managers must be aware of their importance.

Keywords: investment in people; intellectual capital; share of education expenditure in the GDP; educational policies; economic development

1. Introduction

Investing in people, training and preparing them to acquire information and knowledge is, according to many economists, the most profitable investment for any society, which can only acquire prosperity from people's activity [1], especially the work of highly trained people.

If human capital means professional expertise, skills and health, that enhance individual creative capacities, and the ability to produce economic-social goods, to allow future income generation, investing in human capital translates into higher productivity for the individual who owns such capital.

Moreover, through high productivity, educational capital increases the value of labor and entails higher wages. Thus, education is regarded as a means of accumulating human capital. Furthermore, a higher level of training will increase workforce flexibility, and allow for its better adjustment to the labor market conditions.

While educational capital describes individual abilities acquired from training in educational facilities or outside them, and biological capital summarizes health, in the form of individual physical abilities, specialists in this field have identified inter-dependent links between the two. Thus, health conditions the acquisition of educational capital, in the same way that lack of economic resources generates an individual's inability to maintain and develop his/her educational capital. A lower educational level may also translate into reduced concern for and ability to maintain optimum physical health, which would cause a decline in health, and hence declining labor and decline of human capital. We can therefore talk about the presence of a vicious circle generating permanent poverty.

This is why, following the avalanche of information and knowledge, the space of scientific research has provided for unprecedented development of the information technologies, communication systems and communication technologies in a knowledge-based society, and lifelong learning has become the informing and formative paradigm of the new millennium.

The general objective of the paper is to review the educational system, as an element of human capital and its relationship with the labor resources in Romania, by reviewing employment and work force productivity, exploring it from both the perspective of individual education levels and that of social policies promoted as strategies of investing in people.

Also, in describing and analyzing the effects of education on economic life, the secondary goal of this paper is to offer an overview of the Romanian situation which, corroborated with the generation of a new outlook on intellectual capital, might generate an integrated approach in the development of human resource strategies to allow an organization to meet its future goals by improving the quality of labor relations between the organization and its employees as well as its strategies, policies and practices in recruiting, training, developing, managing the performance, rewarding and its employees and managing relations with them. Theoretical concepts such as intellectual capital, human capital, knowledge- and resource-based strategic management, as well as human resource strategic management, highlight and provide concreteness to the research, the more so as the paper ends with a conclusions and proposals section.

2. Description of the Study Area

2.1. A Brief Review of Literature

Investment in people through competitive and efficient educational policies is more and more frequently envisaged in the specialized literature a sure "root" source (Schultz) of economic growth, while education is regarded as the "strong heart" (Blaug) of the human capital theory [2]. Education enhances the individuals' capacity for lifelong learning, generating an increase of future productive competencies, and of human capacities as a whole. Some voices say that development is an extension of human liberties, while economic growth is not regarded as a goal in itself, but just a means to extend such liberties. Therefore, education increases an individual's freedom to live a healthier, worthwhile life.

Perceived just as labor resources, people should be supported to develop, motivated to perform, and appreciated for their worth. Nations no longer assess their economic power just in terms of Gross Domestic Product or population, more and more frequently they refer to the production power and innovation capacity of human capital that some professional authors see as the intellectual and human force of a nation.

Considered as the most important source of wealth in the New Economy, intellectual capital rose to attention when it was observed that there were significant differences between the market value of a company and its net accounting value. Some 30 years ago, Kenneth Galbraith suggested that this concept involves more than mere knowledge or pure intellect, it means action [3].

Specialists in areas such as economy, management, accounting, have tried to define the concept of intellectual capital as closely as possible, given that it is "intangible". Thus, defined as a way to create value and as a resource in the traditional sense, intellectual capital consists of three directions converging into a complex meaning: an accounting one, which designs it as an intangible asset, where estimates show that now 60%–70% of a company's worth is given by such assets; identifying an adequate matrix, so as to develop efficient methods of assessing intellectual capital; and finally a direction given by strategic management. Before the 1980s, specialist literature in strategic management theorized that, in order to understand the competitive edge, the external environment of the organization is key. This started from the assumption that resources were evenly distributed, and easily accessible to organizations in the same industry. Thus, the management's task was to identify the most intelligent ways of combining products and markets, based on factors including: the substitution products power, entry barriers, the negotiation power of the suppliers and buyers.

In 1986, Barney would develop four criteria in establishing the resources that can generate sustainable competitive edge. From an analysis of these criteria—value to the customer, rarity, uniqueness and cost of copying—it is noted that the only resources that meet them all are the intangible assets; therefore it is recommended that intangible assets should be recorded as efficiently as possible in the structure of the organization, for it to be intelligently managed [3].

Defined by de Hugh MacDonald as "existing knowledge in an organization that can be competitive advantage" [4] or by Leif Edvinsson and Pat Sullivan as, "knowledge that may be converted to value" [5], intellectual capital includes three elements: human capital, structural capital and relational capital (Figure 1).

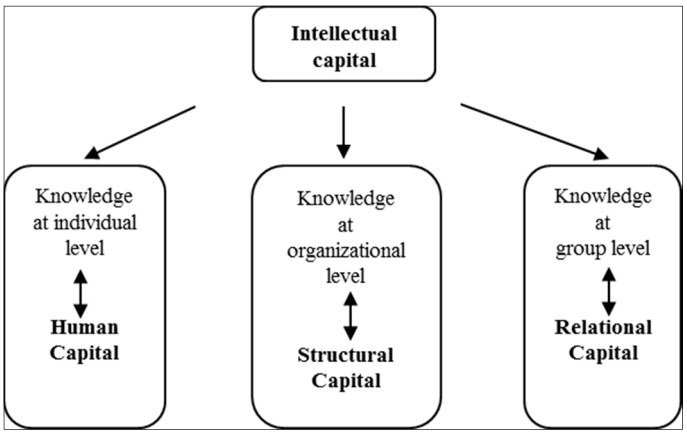


Figure 1. The components of intellectual capital (Source: [6]).

The concept of "human capital" has been around forever, but use of the term as such, both in academic circles and in the professional environment, has become common in the past 50 years. Moreover, interest in and importance assigned to the concept have become evident in the increasing number of scientific papers on this topic, for about half a century.

Nowadays, the theory of human capital holds a special place in economic sciences, with its own system of ideas and principles, books and reference research, and authors awarded the Nobel Prize for their research, such as Gary S. Becker in 1992 and Theodore W. Schultz in 1979. The wealth of studies and research on human capital demonstrate that the countries that allocate higher investment in human capital—for education, research, health, are also those that register the highest economic performance. This logic underpins the economic boom in the second half of the past century in some south and eastern Asian countries (South Korea, Hong Kong, Singapore, Taiwan), which invested a lot in education [7]. Therefore, long-term economic development can only be obtained with solid investment in human resources.

The first author to mention, prefiguring the first signs of a theory on human capital, was Milton Friedman, who, in his Ph.D. paper [8] of 1946 dealt with the incomes of professionals. Moreover, specialist theory states that the theory of human capital is the fruit of research conducted in the 1950s by economists at the University of Chicago and Columbia University on education demand, the workings of the labor market, the issue of wage differences and many others [8].

Gary S. Becker, the uncontested leader of the human capital school, developed the theory of investment in human capital, and the concept of human capital return on investment [7]. Thus Becker built a complex theory of the role of education in economic growth. He classified human capital in the same way as physical means of production: additional investments in human capital, through education, training and medical treatment, and maintaining increased productivity as the ultimate goal.

As for the main point of the research, that of focusing efforts on education and training as means of developing knowledge and skills, and on employment and productivity, respectively, as an effect of investment on educational capital, in 2001, the Organization for Economic Cooperation and Development gave the closest definition for the term human capital, referring to the sum of knowledge, skills, competencies and attributes incorporated in individuals, that facilitate the creation of personal, social and economic welfare.

According to the specialists, identifying and defining the components of human capital are not easy tasks, as they raise issues of defining and operationalizing, which is why most authors consider educational capital—skills developed through training in school or outside it and biological capital—physical skills displayed in the state of health, to be the main elements of human capital.

Two outstanding figures of the theory of human capital, Jacob Mincer and Gary Becker refer to human capital in their works [7], especially in the educational sections, emphasizing the idea of training and education costs. Moreover, Blaug added to their theories, stressing that the individuals in one country should attain a minimal education level in order to become intelligent consumers, and benefit from the positive effect of the technological progress of their time, respectively [2]. Thus, education may be considered as both a consumer good, providing multiple benefits to the population, and as a direct investment in business. The rationale of this definition generated many concerns among economists, who have not, however, reached an agreement on the hypothesis. One thing is certain, though: the fact that investment is and should be ongoing, either to expand the human capital by education, or by

maintaining the existing stock of human capital with regular medical examinations; the idea of human capital as an investment is gaining more and more ground nowadays.

2.2. The Need for Continuously Informing and Education the Population

The European Union undertook to create better and more numerous work places. This commitment requires a strong partnership between the Member States, the regional and local authorities, the social partners, civil society and, especially, the European citizens. There are still a lot of things to achieve in important fields, such as research, innovation and within the knowledge-based society in order to create better and more numerous work places [9] in a continuously changing world. It is very important that the EU and each Member State invest in their most valuable resource: their citizens.

Eurostat [10] estimates that 24.512 million women and men in the EU-28, of which 18.347 million are in the Eurozone (EA-18), had become unemployed by September 2014. Compared to August 2014, the number of unemployed people went down by 108,000 in the EU-28 and 19,000 in the Eurozone. Compared to September 2013, unemployment dropped by 1,818,000 in the EU-28 and 826,000 in the Eurozone. Thus, in September 2014, the Eurozone recorded an 11.5%, unemployment rate, stable compared to August 2014, but in decline, if compared to the 12.0% of September 2013. In the EU-28, the unemployment rate was 10.1% in September 2014, again stable compared to August 2014, but lower if compared to the 10.8% in September 2013. Of the EU Member States, the lowest unemployment rate was recorded in Germany (5.0%) and Austria (5.1%), and the highest in Greece (26.4% in July 2014) and Spain (24.0%). Compared to 2013, unemployment rates dropped in twenty-one Member States, rose in six and remained unchanged in Belgium. The most substantial drops were recorded in Hungary (from 10.0% to 7.6%, in a one-year interval, August 2013–August 2014), Spain (from 26.1% to 24.0%) and Portugal (from 15.7% to 13.6%), and the highest rises in Finland (from 8.2% to 8.7%) and France (from 10.3% to 10.5%) (Figure 2).

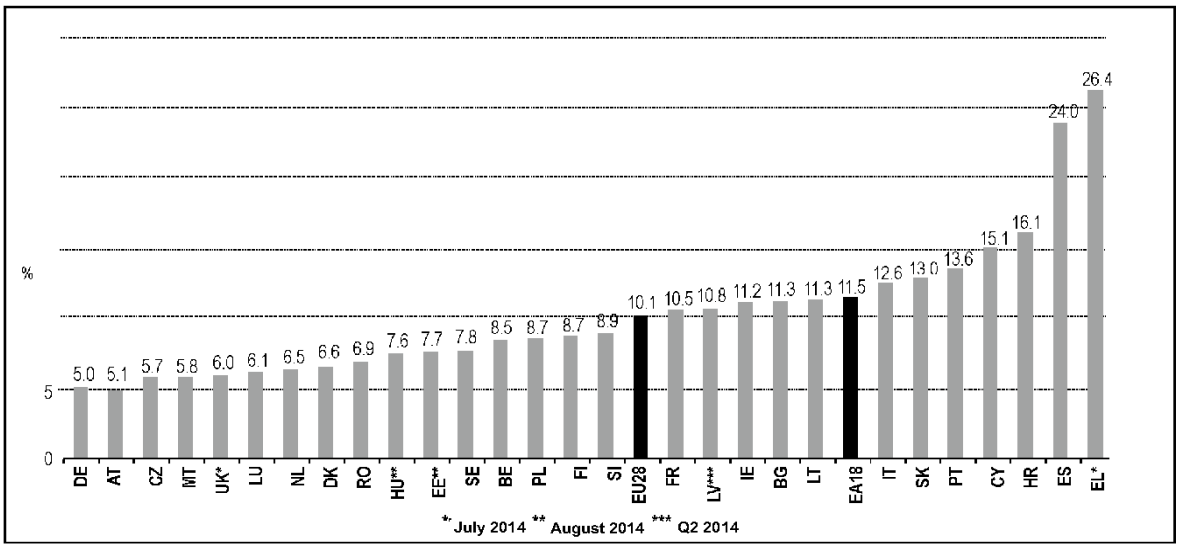


Figure 2. Unemployment rates, seasonally adjusted, September 2014 (%) (Source: [10]).

Moreover, recent information published in Eurostat Report 168/2014 of 4 November 2014 [11], describes the risk of poverty or social exclusion in the EU-28, with one person in four experiencing

this. Thus, in 2013, 122.6 million people, or 24.5% of the EU population, where in danger of poverty or social exclusion; these people were in at least one of the following situations: at-risk-of-poverty after social transfers (income poverty), severely materially deprived or living in households with very low work intensity.

The percentage of people exposed to the risk of poverty or social exclusion in the EU-28 in 2013, *i.e.*, 24.5%, only slightly declined from the percentage in 2012 (24.8%), but was higher than in 2008 (23.8%). Therefore, according to the data published by the statistical office of the European Union in 2013, more than a third of the population was on the brink of poverty or social exclusion in five EU Member States: Bulgaria (48.0%), *Romania* (40.4%), Greece (35.7%), Latvia (35.1%) and Hungary (33.5%). At the opposite end of the scale were countries like, the Czech Republic (14.6%), the Netherlands (15.9%), Finland (16.0%) and Sweden (16.4%), where the lowest rate of poverty or social exclusion risk was recorded (Table 1).

Table 1. At risk of poverty or social exclusion, 2008 and 2013 (Source: [11]).

	At risk of poverty or social exclusion (Persons falling under at least one of the three criteria)				**Persons at-risk-of-poverty after social transfers (%)**		**Persons severely Materially deprived (%)**		**Persons aged 0–59 living in households with very low work intensity (%)**	
	% of total population		**in thousands**							
	2008	**2013**	**2008**	**2013**	**2008**	**2013**	**2008**	**2013**	**2008**	**2013**
EU 28 *	23.8	24.5	116,580	122,650	16.6	16.7	8.5	9.6	9.1	10.7
Belgium	20.8	20.8	2190	2290	14.7	15.1	5.6	5.1	11.7	14.0
Bulgaria	44.8	48.0	3420	3490	21.4	21.0	41.2	43.0	8.1	13.0
Czech Republic	15.3	14.6	1570	1510	9.0	8.6	6.8	6.6	7.2	6.9
Denmark	16.3	18.9	890	1060	11.8	12.3	2.0	3.8	8.5	12.9
Germany	20.1	20.3	16,350	16,210	15.2	16.1	5.5	5.4	11.7	9.9
Estonia	21.8	23.5	290	310	19.5	18.6	4.9	7.6	5.3	8.4
Ireland	23.7	-	1050	-	15.5	-	5.5	-	13.7	-
Greece	28.1	35.7	3050	3900	20.1	23.1	11.2	20.3	7.5	18.2
Spain	24.5	27.3	11,120	12,630	20.8	20.4	3.6	6.2	6.6	15.7
France	18.5	18.1	11,150	11,230	12.5	13.7	5.4	5.1	8.8	7.9
Croatia	-	29.9	-	1270	17.3	19.5	-	14.7	-	14.8
Italy	25.3	28.4	15,100	17,330	18.7	19.1	7.5	12.4	9.8	11.0
Cyprus	23.3	27.8	180	240	15.9	15.3	9.1	16.1	4.5	7.9
Latvia	34.2	35.1	740	700	25.9	19.4	19.3	24.0	5.4	10.0
Lithuania	27.6	30.8	930	920	20.0	20.6	12.3	16.0	5.1	11.0
Luxembourg	15.5	19.0	70	100	13.4	15.9	0.7	1.8	4.7	6.6
Hungary	28.2	33.5	2790	3290	12.4	14.3	17.9	26.8	12.0	12.6
Malta	20.1	24.0	80	100	15.3	15.7	4.3	9.5	8.6	9.0
The Netherlands	14.9	15.9	2430	2650	10.5	10.4	1.5	2.5	8.2	9.4
Austria	20.6	18.8	1700	1570	15.2	14.4	5.9	4.2	7.4	7.8
Poland	30.5	25.8	11,490	9750	16.9	17.3	17.7	11.9	8.0	7.2
Portugal	26.0	27.4	2760	2880	18.5	18.7	9.7	10.9	6.3	12.2
Romania	44.2	40.4	9420	8600	23.4	22.4	32.9	28.5	8.3	6.4
Slovenia	18.5	20.4	360	410	12.3	14.5	6.7	6.7	6.7	8.0
Slovakia	20.6	19.8	1110	1070	10.9	12.8	11.8	10.2	5.2	7.6

Table 1. *Cont.*

	At risk of poverty or social exclusion (Persons falling under at least one of the three criteria)				Persons at-risk-of-poverty after social transfers (%)		Persons severely Materially deprived (%)		Persons aged 0–59 living in households with very low work intensity (%)	
	% of total population		in thousands							
	2008	2013	2008	2013	2008	2013	2008	2013	2008	2013
Finland	17.4	16.0	910	850	13.6	11.8	3.5	2.5	7.5	9.0
Sweden	14.9	16.4	1370	1600	12.2	14.8	1.4	1.4	5.5	7.1
UK	23.2	24.8	14,070	15,590	18.7	15.9	4.5	8.3	10.4	13.2
Iceland	11.8	13.0	36	40	10.1	9.3	0.8	1.9	2.6	6.2
Norway	15.0	14.1	700	710	11.4	10.9	2.0	1.9	6.5	6.4
Switzerland	18.1	16.4	1330	1280	15.7	14.5	2.1	1.0	3.3	4.1

Notes: * EU 27 data for 2008; EU 28 estimates for 2013; Spain: change of data source in 2013 income data; Croatia: 2008 data on At-risk-of-poverty rate after social transfers estimated from Household Budget Survey; UK: change of provider of cross-sectional EU-SILC data: until 2012 data were collected by the ONS, from 2012 onwards they are collected by the Department for Work and Pensions; - = Data not available.

As a consequence, reducing the number of people exposed to this risk has become one of the main objectives of the Europe 2020 strategy—the Europe 2020 strategy [12], following the Lisbon strategy, was adopted by the European Council on 17 June 2010, and is the common EU agenda for the next decade, stipulating the need for a new growth pact that may bring about sustainable economy by an enhanced competitiveness and productivity, the principles underpinning a sustainable social market economy.

More than ever, in a society affected by a deep financial and economic crisis [13], where thousands of people remain unemployed, education and lifelong personnel training gives them a real chance of becoming competitive on the labor market and (re)integrating in their society, in terms of socio-professional and geographic mobility.

3. Investment in People in Times of Crisis, between the Possible and the Probable

In order to obtain more money from the state budget, the Romanian government used the simplest solution: tax increase. The measure has direct implications on the labor market, one of the effects being discouragement of the unemployed to seek another job and implicitly to pay contributions to the state. "70% of the additional income of a rehired unemployed person goes to taxes and the forfeit of social benefits. Therefore, there are not enough stimuli for job seeking" [14].

The comedown in labor productivity in 2009, despite the strong rise of unemployment, demonstrates that reorganization of the economy took place in the private sector, where this was easier—in human resources, but it was not efficient. Moreover, the cost reduction strategy based on personnel cutbacks is counterproductive, both in the public and the private sectors, as the costs of rehiring at a later date will exceed the savings made today through dismissals [14].

The public sector in Romania is one of the most over-sized in comparison to other EU Member States. For example, in the first semester of 2010, the share was of 19% in Italy, 21% in Great Britain and 26.5% in Poland. In other EU countries, this percentage is even lower. One explanation for this fact is the rate of workforce participation, which is lower in Romania compared to the EU average. In general, though, the public sector is definitely over-sized both in relative terms, in comparison with

other EU countries, and in relation to the economic conditions in Romania. There are two issues the public sector is facing: rise in efficiency and cost reduction.

According to our National Agency for Employment, the unemployment rate level at the end of July 2010 was 7.43% (679,495 unemployed), 1.13 percentage points higher than for July of the previous year. The minor month on month improvement (unemployment 0.01% lower in June 2010 compared to May 2010) is not a consequence of active measures for employment, but of fewer eligible social security beneficiaries.

The most numerous dismissals are anticipated in the extractive sector, in the construction industry, the IT and TV and radio industries. If the official version confirms this annual average unemployment rate [15], Romania will rank below the EU average for this indicator (9.6%), midway among the 27 Member States, with top ranking Spain (unemployment rate—20.3%), Slovakia (16%) and Ireland (13.6%).

An important study, ELLI 2010 (European Lifelong Learning Indicators) conducted by Bertelsmann German Foundation, analyzed the existing society in 27 European countries, among which Romania, based on 36 indicators, related to the education coordinates developed by UNESCO. We are talking about *learning in order to know*, defining formal education, *learning in order to do*, defining the training for a job, *cohabitation learning*, with a major contribution to the structure of social cohesion and *learning in order to organize one's own life*, in a permanent effort to gain as much useful information for personal development as possible. The specialists in Bertelsmann think that designing education based on these fundamental directions is the path to the welfare of 21st century society [16], as they are compulsory in assessing the development level of a certain society.

According to this study, Romania got the lowest percentage of the 24 European countries where the researchers analyzed *formal education* data. As for the classification based on "cohabitation learning" and "learning in order to organize one's own life", our country ranks at the bottom of the scale, only ahead of the Hungarians and the Bulgarians. Romania ranks better (24) in "learning in order to do", meaning training for a job, but still with a poor performance.

The lack of active, coherent policies to support the need for information and lifelong education of the population [17] transforms continuing education into a restrictive form for many citizens wishing to be up to date with the latest news in a certain field, who do not have the necessary financial resources to purchase books or learning materials or apply for vocational training.

The March 2009 EC record indicates a series of measures called "good practice measures", which can be adopted by the Member States to ensure sustainability of their economic activity. All in all, the EU Member States strongly stressed the importance of maintaining the number of employees through policies aiming at:

(1) Supporting the economic activities that are viable but that have difficulties in accessing funds by facilitating access to capital. The priorities were industries that have been strongly affected, such as the automotive industry, that many governments helped by operating a subsidy plan for the purchase of new automobiles. Other measures included fast depreciation of invested capital Other measures included rapid acceleration of the depreciation rate of invested capital (Czech Republic) or unlocking the state fund for the employers, in order for the latter to cover a fraction of their personnel costs.

(2) Retraining and training programs. Here the measures have varied according to the proposed objectives. France, for example, encouraged professional retraining most, while in Lithuania the employers were encouraged to keep their employees.
(3) Measures meant to reduce the companies' expenses before the effective dismissal of their employees. Among these—technical unemployment or cuts in the payment of social insurance.
(4) Expansion of the unemployment aid period and the encouragement of part-time activities. Austria, for example expanded the part-time period from one year to two and Germany gave bonuses for reduced working hours.
(5) Targeted measures aimed to support low incomes, such as subsidies for electricity bills. Generally, these tend to focus on the above-mentioned areas, but are applied differently, in accordance with the economic structure, the existing economic situation and the governments' ability to finance these measures.

A crisis actually means an imbalance between the system components that are affected and cause anomalies in the system operation. Crises are generally necessary, because they *represent an unavoidable sanction for errors of management* [18]. Only systemic crises need corrective measures, as they might lead to collapse of the system. The recent economic crisis affected Romania mainly by a 15%–17% decrease in export demand.

Theory recommends that, in times of crisis, decrease in the demand for products and services at the internal and external level be balanced with public investments in infrastructure, education, health care, culture. It would have been a chance to do, somehow under duress, what we have not been able to achieve for years—modernization of the transport infrastructure, of the villages, schools, universities, hospitals, *etc*.

Unfortunately, the inappropriately promoted policies did not lead to such achievements [19], moreover they enhanced the negative effects of the external crisis by creating their own internal crisis, and the situation tended to get out of hand. Were we to examine the situation in the field of education, we could see a strategic error in the relevant public policy [20], because the share of the GDP allocated to investment in education under normal economic development conditions in a country is the essential condition for its prosperity.

Nevertheless, there is a direct connection between a country's level of development and quality of life and its investment in education and research [21]. Because all the other resources are limited, except people's creativity and innovation capacity, which start and develop through educational and research processes.

4. Measuring Economic Development

In order to be able to assess the impact of investment in education on economic development, the relevant specialists recommend, as a first step of the study, an efficient cost/benefit analysis of investments in education, given that investments are dependent on governmental medium and long-term economic policies, and on diverse random factors in the individuals' lives. Knowing the benefits and costs of investing in human capital, an economically sound decision will apply the cost/benefit analysis. This will help identify the effects of investing in human capital, at both the individual (private), and the social level.

Having intangibility as a defining characteristic, as indicated in all its definitions, direct measurement of human capital is difficult, and therefore estimated indirectly. Thus, the literature distinguishes between investigating the human capital stock and investigating investment in human capital at the macro and micro level. Micro-level analyses take into consideration individual decisions and heir effects, while macro-level ones stress the role and importance of human capital in economic growth.

It is important to mention an aspect reflected in both theoretical works and empirical analyses, regarding the level or magnitude of the human capital at a given time (where human capital being seen as a stock variable) or the investment, *i.e.*, accumulation of human capital (where human capital is seen as a flow-type indicator) over a certain interval of time. In the first instance the typical measure is the average number of school years for a specific population group, while for the second it is typically the rate of tuition.

Human capital measures are classified into two broad groups: monetary and non-monetary.

Monetary methods assign a money value to the human capital stock, at both the individual, and the aggregated level, which allows comparing the human capital stock to the physical one [22]. The most widely used monetary methods include the prospective (income based), retrospective (cost-based) and integrated (based on a combination of the two), literature giving the prospective measure as most efficient, and providing the best results.

- Prospective methods are based on the estimated future incomes or, rather, estimated present value of future income flows for an individual with or without consideration for the living costs.
- Retrospective methods are based on the costs of human capital "production"; in other words, it considers the sum of education and tuition expenses, or determines the costs of human capital reproduction.
- After applying the two methods, the relevant authors recognized their limitations and some of them tried to measure and asses human capital by combining the prospective and retrospective methods in order to improve their respective strengths and play out their weaknesses.

Unlike the first category of human capital measurement, non-monetary methods provide human capital measurement in point of investment in education, without assigning money values to the human capital. The most widely used indicators for this method include: tuition rates, average number of years in education, literacy rates, and share of active population graduating different forms of education. The method rationale is that these indicators are more strongly dependent on the investment in education, and the latter is a key factor in the creation of human capital. Thus, the educational indicators used are indicators for the human capital rather than direct estimates of education.

So it becomes evident that there should be differences between countries on the basis of the indicators and of the results generated in the use of different human capital measurement methods. It is, therefore, not just the amount of tuition (average years) that are different between countries, but also the quality of each year of schooling (cognitive skills acquired during the school years). To adjust the human capital function to differences in quality, the specialists have suggested the use of educational inputs, country-specific rate of recovery of educational investments, or the direct testing of cognitive skills.

There are some who say that there is some inter-dependence between the different methods of measuring human capital, namely: inputs to the human capital production process are the basis for the

cost-based method (retrospective); on the other hand, the income-based method (prospective) and the educational approaches are based on the effects of the human capital generating process.

In practice, given there are multiple visions and perceptions on the human capital, it is no surprise that different studies in the literature come up with diverging results for the effects of human capital on economic growth and development. Moreover, such effects of the human capital on economic growth have not been empirically validated; the lack of consensus being mainly due to the theoretical bases of the estimation methods, *i.e.*, to the deficiencies present in each approach. Shortcomings may be of two types: either the method does not adequately reflect the key elements of human capital, or the data are of poor quality.

An important indicator, measuring the effort that society is willing to make so that its members, classified upon certain age criteria, may attend certain educational programs and acquire a certain intellectual capital, in line with the society's possibilities at one time, is the percentage of public expenses for education (CPIB), in GDP in a chosen financial year.

Economic development is also typically expressed in terms of the Gross Domestic Product, an indicator that, when used in a regional context, allows for the measurement of the whole macroeconomic activity and economic growth, and creates a basis for analyzing the regions in comparative terms [23]. A number of international initiatives focused on this issue, and, in August 2009 caused the European Commission to adopt a communication titled "GDP and beyond: measuring progress in a changing world" [24], which outlines a number of actions aimed at improving and completing the GDP; while in the seasonally adjusted series, *Romania* registered a decline of its GDP in QII 2014 by 0.3% compared to QI 2014 and an increase in QI 2014 by 0.5% compared to QIV 2013, therefore, for the third quarter (QIII) of 2014, we can think of a 1.9% economic growth compared to the previous quarter, according to the data published by the *National Statistics Institute* (INS) in early November this year. On the other hand, looking at the national GDP development trend over time and the percentage allocated to education, we note that, for the whole period of analysis, in the 2000–2007 interval (Figure 3), the percentage for education was less than 5%, although the law provided for 6%.

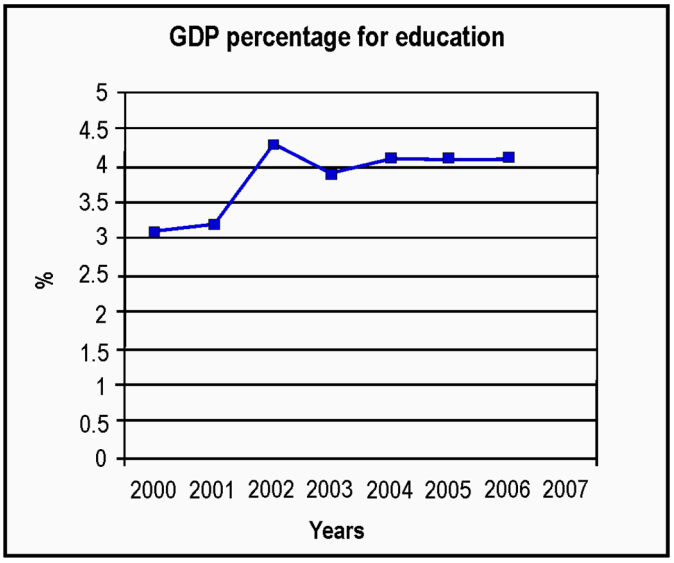


Figure 3. GDP Percentage for education. Source: Chart including data provided by the National Institute of Statistics [25].

By comparison, if we look at the situation of the other EU Member States for the same interval, 2000–2007, the average investment was about 5.1% of the GDP, with some broad variations, however, from one country to another. For instance, in 2007, the percentage exceeded 6% for the northern countries and Cyprus, while the other countries allocated less than 5% of their GDP (Table 2).

Table 2. Percentage of expenditure on education in GDP for the European countries, United States and Japan (Source: [10]).

	% of GDP													
Geo/time	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
EU (28 countries)	-	-	-	-	5	5.03	4.95	4.92	4.91	4.92	5.04	5.38	5.41	5.25
EU (27 countries)	-	4.86	4.91	4.99	5	5.04	4.95	4.92	4.91	4.93	5.04	5.38	5.41	5.25
Euro area (18 countries)	-	-	-	-	4.87	4.89	4.8	4.72	4.69	4.79	4.94	5.31	5.28	5.15
Euro area (17 countries)	-	-	-	-	4.86	4.89	4.8	4.72	4.69	4.79	4.94	5.31	5.28	5.15
Belgium	-	-	-	5.99	6.09	6.02	5.95	5.92	5.98	6	6.43	6.57	6.58	6.55
Bulgaria	4.28	4.02	3.88	3.7	3.94	4.09	4.4	4.25	4.04	3.88	4.44	4.58	4.1	3.82
Czech Republic	3.95	3.97	3.83	3.93	4.15	4.32	4.2	4.08	4.42	4.05	3.92	4.36	4.25	4.51
Denmark	8.3	8.11	8.28	8.44	8.44	8.33	8.43	8.3	7.97	7.81	7.68	8.74	8.81	8.75
Germany	-	4.51	4.45	4.51	4.72	4.74	4.62	4.57	4.43	4.49	4.57	5.06	5.08	4.98
Estonia	5.71	6.74	5.57	5.24	5.47	5.29	4.92	4.88	4.7	4.72	5.61	6.03	5.66	5.16
Ireland	4.82	3.34	4.29	4.24	4.27	4.35	4.66	4.72	4.73	4.92	5.67	6.43	6.41	6.15
Greece	3.48	3.25	3.71	3.5	3.57	3.56	3.83	4.09	-	-	-	-	-	-
Spain	4.42	4.38	4.28	4.24	4.25	4.28	4.25	4.23	4.26	4.34	4.62	5.02	4.98	4.82
France	5.95	5.81	6.04	5.95	5.9	5.92	5.8	5.67	5.61	5.62	5.62	5.9	5.86	5.68
Croatia	-	-	-	-	3.71	3.93	3.87	3.98	4.04	4.02	4.32	4.42	4.31	4.21
Italy	4.65	4.47	4.52	4.83	4.6	4.72	4.56	4.41	4.67	4.27	4.56	4.7	4.5	4.29
Cyprus	5.61	5.36	5.42	5.98	6.6	7.37	6.77	6.95	7.02	6.95	7.45	7.98	7.92	7.87
Latvia	5.85	5.77	5.64	7.22	6.6	5.58	5.12	5.14	5.13	5.07	5.71	5.59	4.96	4.96
Lithuania	5.99	6.37	5.63	5.86	5.81	5.14	5.17	4.88	4.82	4.64	4.88	5.64	5.36	5.17
Luxembourg	-	-	-	3.75	3.79	3.77	3.87	3.78	3.41	3.15	-	-	-	-
Hungary	4.59	4.66	4.5	5.06	5.39	5.91	5.44	5.46	5.44	5.29	5.1	5.12	4.9	4.71
Malta	4.82	4.43	4.52	4.27	4.22	4.48	4.66	6.58	6.45	6.18	5.72	5.32	6.74	7.96
The Netherlands	4.82	4.9	4.98	5.09	5.22	5.47	5.5	5.53	5.5	5.32	5.5	5.95	5.98	5.93
Austria	5.8	5.86	5.66	5.74	5.68	5.53	5.48	5.44	5.4	5.33	5.47	5.98	5.91	5.8
Poland	5.02	4.79	4.87	5.42	5.41	5.35	5.41	547	5.25	4.91	5.08	5.09	5.17	4.94
Portugal	5.36	5.43	5.42	5.39	5.33	5.38	5.1	5.21	5.07	5.1	4.89	5.79	5.62	5.27
Romania	-	3.37	2.88	3.25	3.51	3.45	3.28	3.48	-	4.25	-	4.24	3.53	3.07
Slovenia	-	-	-	5.86	5.76	5.8	5.74	5.73	5.72	5.15	5.2	5.69	5.68	5.68
Slovakia	4.53	4.18	3.92	3.99	4.31	4.3	4.19	3.85	3.8	3.62	3.61	4.09	4.22	4.06
Finland	6.26	6.08	5.89	6.06	6.22	6.43	6.42	6.3	6.18	5.9	6.1	6.81	6.85	6.76
Sweden	7.69	7.3	7.16	7.06	7.36	7.21	7.09	6.89	6.75	6.61	6.76	7.26	6.98	6.82
UK	4.77	4.47	4.64	4.58	5.06	5.21	5.12	5.31	5.38	5.29	5.28	5.56	6.15	5.98

Table 2. *Cont.*

% of GDP														
Geo/time	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Iceland	5.89	5.78	5.93	6.24	6.79	7.7	7.47	7.59	7.55	7.36	7.56	7.81	7.6	7.36
Liechtenstein	-	-	-	-	2.96	2.46	2.43	2.29	2.05	1.92	2.05	2.9	2.68	2.53
Norway	7.6	7.3	6.74	7.18	7.58	7.55	7.42	6.97	6.49	6.66	6.4	7.24	6.87	6.66
Switzerland	-	-	5.06	5.25	5.57	5.72	5.55	5.52	5.28	4.88	4.95	5.36	5.22	5.28
Macedonia	-	-	-	-	3.35	3.3	-	-	-	-	-	-	-	-
Albania	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turkey	3.26	2.96	3.48	2.71	2.82	2.96	3.12	-	2.86	-	-	-	-	4.07
USA	4.94	5.23	4.94	5.55	5.32	5.43	5.14	4.91	5.24	5.13	5.26	5.3	5.32	5.13
Japan	3.59	3.6	3.82	3.58	3.6	3.64	3.59	3.48	3.46	3.45	3.46	3.61	3.85	3.78

Notes: - = not available.

The National Education Law [26], approved in early 2011, provided that a minimum 6% of the gross domestic product of each year should be allocated for the funding of national education, out of the state budget and the budgets of the local governments. It also stipulated that educational establishments and institutions may obtain and use their own revenues independently. The same law stated the Gross Domestic Product of each year should be allocated from the state budget to scientific research. The enforcement deadline for this measure has been postponed, based on claims that this funding rate would require an additional total budget effort of more than 46 billion lei in 2012 and 2013, therefore the fiscal-budget strategy for 2011 stated that the deadline would be extended to 2014.

This explains Romania's position, ranking second lowest among the EU states in point of allocations from the gross domestic product (GDP) for education in 2011, at 4.1%, same as Greece. Only Slovakia (4% of the GDP) and Bulgaria (3.6%) allocated a lesser share of their GDP to education in 2011, a Eurostat study reported [10].

Of the 4.1% allocated to education, Romania allocated 1.3% to pre-school and primary schools, 1.6% to secondary schools, and 0.9% to tertiary or higher education. Bulgaria ranks lowest among the EU Member States in point of GDP allocation for education in 2011, according to the data made public by Eurostat [10]. In practice, Bulgaria only spent 3.6% of its GDP for education in 2011, of which 1.8% on secondary education.

According to the same Eurostat source [10], in 2011, total expenses in the EU-27 were 49.1% of the GDP, of which 5.3%, worth 347 billion euro, allocated to education. As a share of the GDP, the highest allocations for education were in Iceland, 7.9% of the GDP, Denmark (7.8%) and Cyprus (7.2%).

Table 2 shows the official statistical data reflecting the percentage of the expenses for education in various European countries and the United States of America and Japan. Figure 4 is based on those data, *i.e.*, the trend (2011 compared with 2007) where CPIB is placed—between 3.5% and 5.5%. For 2011, attention should be paid to the amount spent on education in Denmark 8.75%, Malta 7.96, Cyprus 7.87%, Iceland 7.36%, Sweden 6.82%, Finland 6.76%, and Norway 6.66%. In 2007, Romania spent 4.25% (following a series less than 3.5%), which was still not satisfactory and under the legally stipulated 6%. This fact truly proves the "importance" that the authorities give to investment in intellectual capital [27], the most crucial investment that a nation can make.

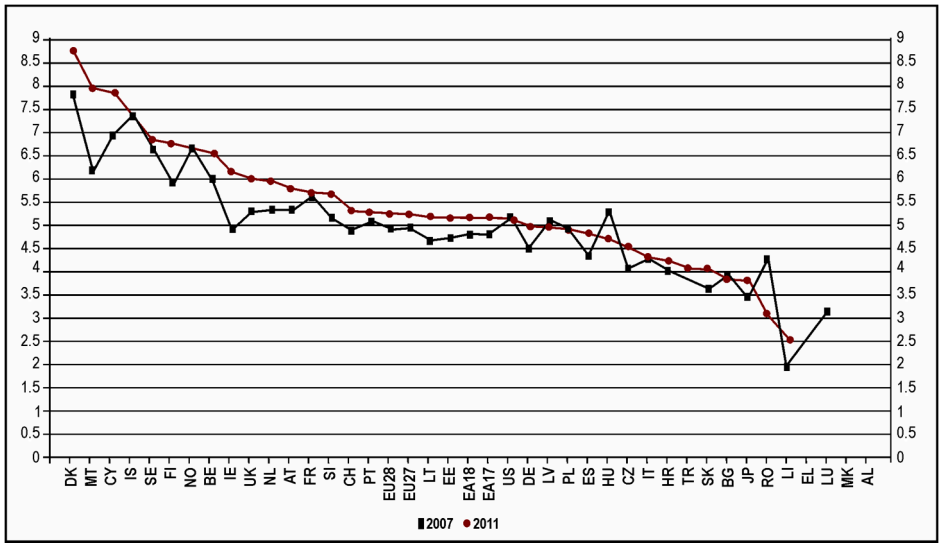


Figure 4. Percentage of expenses for education out of GDP in European countries, USA and Japan for 2011 compared with 2007 (Source: [10] and Table 2).

Romania must invest in education, considering that, although there are some areas of excellence, 15%–20% of the population is below the elementary level of education, general school, the World Bank country director for Romania, Elisabetta Capannelli, stated at the *Bucharest Forum 2014* [28] *Unlocking the potential of Eurasia. Strategic decisions on the new Silk Road*, organized by the Aspen Institute Romania.

"There are areas of excellence in Romania (in education—editor's note), as for example foreign language skills, appreciated by the investors, but there are also areas of weakness. If we look at the Programme for International Student Assessment (PISA) tests for mathematics or sciences, for example, the results show weaknesses of the educational system. [...] 15%–20% of the Romanian population does not have basic education, middle school level", the World Bank representative said [28].

With an allocated budget slightly above 3% of the GDP for education, compared to Sweden's investing 6.7% of its GDP in education, and ranking 74th in the world in point of the ease of doing business in the country, the World Bank Office stressed that Romania has a wealth of opportunities that could be developed by incentives to the private sector to start initiatives, and a commitment of the authorities to follow through with reforms, so that the citizen might be the final beneficiary of such efforts.

Table 3 shows the CPIB indicator sheet, where we find details about the calculation formula, the indicator definition and the other defining elements.

Table 3. Public expense for education, % out of GDP.

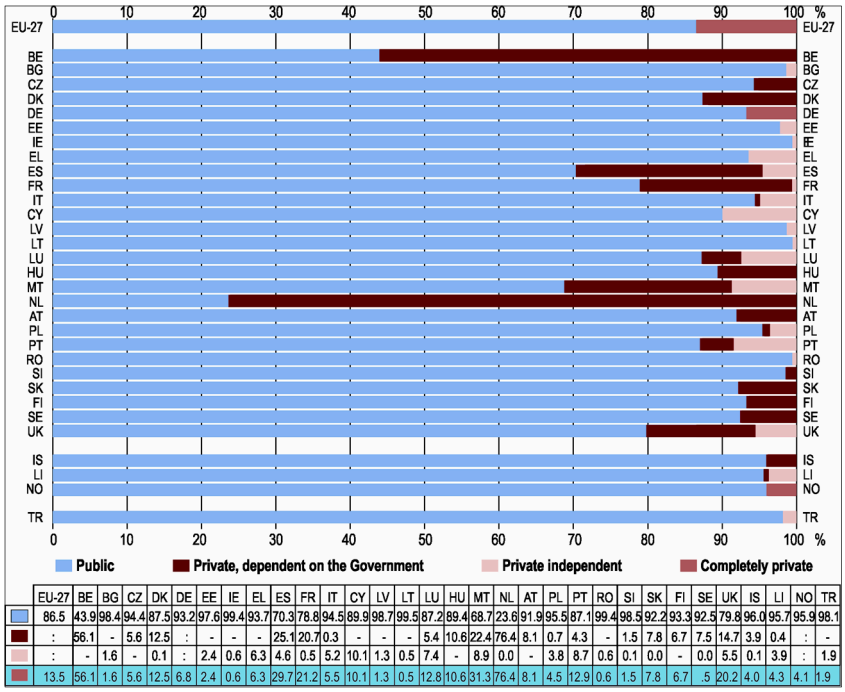
Defining elements	**The CPIB indicator sheet**
Definition	The percentage of public expenses for education in the GDP in a certain financial year.
Unit of measure	%
Purpose	Shows the percentage out of the annual financial income that the Government spends for education development.
Symbol	CPIB
Calculation method	The amount of total public expenses for education divided by the GDP of a certain financial year and multiplied by 100.

Table 3. *Cont.*

Defining elements	The CPIB indicator sheet
Calculation formula	$CPIB_{th} = TCP_{th}/PIB_t \times 100$ where: $CPIB_{th}$—percentage of public expenses for education in financial year t, for level of education h; TCP_{th}—total public expenses for education in financial year t; PIB_t—Gross Domestic Product for financial year t, for level of education h; h—is a certain educational level, according to the International Standard Classification of Education (ISCED) 97 classification (ISCED 0—preschool, ISCED 1—primary, ISCED 2—secondary, ISCED 3—high school and vocational, ISCED 4—post-high school, ISCED 5–6 tertiary).
Required data	The public expenses for education and the Gross Domestic Product for a certain financial year.
Data sources	Ministry of Economy and Finance, Ministry of Education and Research
Aggregation level	National
Other information	Topic 1: Economic development, Sub-topic: Competitiveness; Level 3

Source: [25].

The way in which education investments are made per country and form of state investment, private government dependent, independent private and totally private, is shown in Figure 5 [29].



	EU-27	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK	IS	LI	NO	TR
Public	86.5	43.9	98.4	94.4	87.5	93.2	97.6	99.4	93.7	70.3	78.8	94.5	89.9	98.7	99.5	87.2	89.4	68.7	23.6	91.9	95.5	87.1	99.4	98.5	92.2	93.3	92.5	79.8	96.0	95.7	95.9	98.1
Private, dependent on the Government	:	56.1	-	5.6	12.5	:	-	-	-	25.1	20.7	0.3	-	-	-	5.4	10.6	22.4	76.4	8.1	0.7	4.3	-	1.5	7.8	6.7	7.5	14.7	3.9	0.4	:	-
Private independent	:	-	1.6	-	0.1	:	2.4	0.6	6.3	4.6	0.5	5.2	10.1	1.3	0.5	7.4	-	8.9	0.0	-	3.8	8.7	0.6	0.1	0.0	-	0.0	5.5	0.1	3.9	:	1.9
Completely private	13.5	56.1	1.6	5.6	12.5	6.8	2.4	0.6	6.3	29.7	21.2	5.5	10.1	1.3	0.5	12.8	10.6	31.3	76.4	8.1	4.5	12.9	0.6	1.5	7.8	6.7	.5	20.2	4.0	4.3	4.1	1.9

Figure 5. The distribution of pupils/students (ISCED Levels 1, 2 and 3) according to the type of educational structure they attended (state or private), in 2006 (Source: [29]).

While we can justify public investment in primary and secondary education, where the citizens acquire a package of educational services in accordance with the values and standards that a society has at a certain time, along with the percentage of GDP expenses that the society decides to invest, tertiary education is quite controversial. This applies mainly to the under-developed or developing countries, where tertiary education is free—due to the fact that the best graduates will migrate to developed

countries where they get better paid; in other words, these countries become suppliers of free intellectual capital, an unfair and immoral thing [30].

A return of the investment made into those top students should happen—either they should have to work a certain number of years in the country of study [31] or they should send a percentage of their income to their country of study and origin. The issue is not easy at all, it requires discussions, whether such intellectual capital supplying becomes the object of international debates, and answers to one question: how to find fair supports for the supplying countries.

5. Conclusions and Recommendations

The percentage of expenses on education out of the GDP in a country is an essential indicator [32], which reflects the policy of that country in the education field. The value of this indicator provides information on how that country will look in the future.

It is recommended that the investments in education [33] should increase during crisis rather than during regular times. The human resource, highly trained, will represent the main production factor [34], generating innovation and creativity. In Romania, with an under-funded educational system, increase of public investment, especially of middle- and high-school teachers, becomes a necessity [35] and entails an increased efficiency in the spending of education money. Investment in people, *i.e.*, in their education and training, is the most profitable for any nation. The percentage of GDP that goes to such investment shows the importance given by the authorities to education, learning and research.

The prosperous nations in the world have always been paying great attention to education and allocating large amounts of their GDP to it. Within the knowledge-based society, intellectual capital is the most important investment that a society makes, as it is superior to the classical resources, labor, nature, and capital [36]. A great inequity arises between the countries that invest in the education of their own citizens, mainly tertiary studies, and the countries that receive the brightest graduates for employment [37].

As to how to increase or maintain funding for education, the EU Member States show an increased interest in finding solutions to improve efficiency and promote fairness [38]—a more difficult challenge in the context of financial and economic crisis and of the rising levels of public debt in particular. Their concern is not only to reach the level and find the funding source, but also to develop a set of proposals for reform in the education system [39], raising questions on the future development of workforce competence, for the benefit of individuals and of society in general.

Romania's concerns, in relation to current demographic trends, as well as migration and brain drain, generate a compulsory effort to integrate all the socio-demographic categories on the labor market [40]—educational integration of all young people, irrespective of their social, economic or cultural background, as well as of elderly people. Thus, investment in the training and/or re-training of their knowledge and skills, in order to integrate them into the economic and social realities of the 21st century have become a major concern for the state social policy system.

I think that the think-tank idea of *The Lisbon Council for Economic Competitiveness and Social Renewal*, *i.e.*, appointing human capital managers at the local and/or regional level to coordinate and implement efficient policies for human capital enhancement [41], would be good practice in Romania, too. In the regions where this practice has been successfully implemented, e.g., the cities of Bratislava,

Helsinki, Stockholm, the key tasks of human capital development were taken over by informal networks, official agencies, coordinating groups, working groups, local NGOs or even enthusiastic persons. With the role of designing, developing and implementing a human capital strategy for the region/municipality, the human capital managers help focus the available resources to the most efficient leverage. Thus, our community and the local space where we all develop, build social relationships and spend time with the near and dear, building a future, are good reasons why the attention and interest of the political decision makers should be channeled in this direction, as the stake is improving the standards of living for the future generations through access to education, training and lifelong learning.

To quote Peter Drucker, who said that he would never make predictions, but simply look out the window to see *what is visible—but not yet seen*, I find that the highest level of education will have a discernible impact on the process of graduating from school to occupational life, championed by people who strive for knowledge and lifelong learning.

Conflicts of Interest

The author declares no conflict of interest.

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