EDUCATION VS. ECONOMICALLY ACTIVE AND INACTIVE INDIVIDUALS ON THE LABOR MARKET IN EUROPEAN COUNTRIES

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In recent years, education has become a key factor and determinant of labor market situation. The education system should therefore be correlated with labor market needs reported by employers. The main task the universities are facing with is the ability to combine theoretical knowledge with practical knowledge through joint implementation of research projects and grants implementation, increasing the level of human capital of a society.

Key words: *education, labor market, business, employment, the knowledge economy.*

În ultimii ani, educaţia a devenit un factor cheie şi determinant al situaţiei pe piaţa forţei de muncă. Prin urmare, sistemul de învăţământ trebuie să fie corelat cu nevoile pieţei forţei de muncă, raportate de angajatori. Sarcina de bază cu care se confruntă universităţile este abilitatea de a combina cunoştinţele teoretice cu cele practice prin implementarea în comun a proiectelor de cercetare şi punerea în aplicare a subvenţiilor, precum şi creşterea nivelului capitalului uman al unei societăţi.

Cuvinte cheie: *educaţie, piaţa forţei de muncă, business, ocuparea forţi de muncă, economia bazată pe cunoaştere.*

В последние годы, образование стало ключевым фактором и фактором, определяющим ситуации на рынке труда. Поэтому система образования должна быть соотнесена с потребностями рынка труда, представленных работодателями. Задачи, стоящие перед вузами – умение сочетать теоретические знания с практическими знаниями через совместное осуществление научно-исследовательских проектов и реализации грантов, повышение уровня человеческого капитала общества.

Ключевые слова*: образование, рынок труда, бизнес, трудоустройство, экономика знаний.*

JEL Classification: N3; E24; J21; J29; L21.

Introduction. One of the main trends of research on labour market issues, which has increasingly been of interest among researchers in the last decade, is the effect of educational level on the situation of workers on the labour market and their employment opportunities. Today education is a specific asset, which is an element of human capital. The benefits of having education refer both to individuals, who possesses it and are rewarded in proportion to their abilities, as well as their economic environment. Macroeconomic models as well as management strategies show that expenditures on human capital development are desirable because they foster economic growth and the development of various sectors, industries and individual companies. Many economic studies conducted in different countries show a positive relationship between the possessed education and the amount of remuneration for work. The aim of this paper is to show the role of education in the context of the situation on the labor market. The article is theoretical and reffers to the economic category which is the labor market.

The main considerations. The contemporary labor market as an economic category is the whole concept of a synthetic imaging removable relation occurring between employer and employee. Increasingly, the labor market is an important point in the functioning of a market economy, especially in the context of economic growth and macroeconomic policies of the government. All the effects of the economic policy pursued, modern information and computer technology, processes of globalization and changes in the education system are reflected in the processes taking place in the labor market. The research of this discipline is the supply of labor resources and demand. The labor market is the main

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recipient of the effects of the education system, because all the participants of the education process will go on the labor market.

The learning opportunities offered by educational institutions, have an impact on employment opportunities, the possibility of becoming economically active, obtaining a fair wage, or affecting the uneven distribution of income in individual economies of many countries. Education shapes both the general competences and allows individuals to obtain specific qualifications, including vocational ones, sought by employers.

The availability of high-tech jobs also affects the training of young specialists. It is highly desirable that the pupils and students do traineeships in modern companies. The problem with organizing the traineeships is not only a result of failure of educational institutions, but must also be seen to side businesses. The mood of the crisis is not conducive for engaging companies in training and internship opportunities for young people, although given the cyclical nature of the economic situation, now is the time to get through involvement in their practical training to prepare the staff for a period of recovery. However, this requires a long-term, strategic perspective and free resources less accessible in terms of weakening economic activity. Combining scientific theory with practice already in the process of learning, learning creates a much better chance of higher education graduates entering the labor market. With these solutions, a significant proportion of young people will be able to be included in the group of insiders. This group is the driving force behind the changes taking place in the enterprise. Therefore, national governments should be more involved in the development of standards for the reconciliation of science students with business practice. Intellectual capital, human capital within the organization becomes the most important link in the chain that more and more frequently determines the competitive advantage in the market. Gustaw Ehrenberg and Adam Smith show that the human capital theory shows employees as individuals having certain skills. They point out, however, that these skills can be "rented" to employers for a fee that is determined by the market wage rates.

It can be stated that the formation of labour demand depends on many factors, among which the following should be mentioned, e. g. economic changes, technological development and the increasing pursuit of knowledge-based economy. To a large extent, the factors determining the demand for labor are the globalization processes taking place in Poland. The transnational corporations present in Poland are increasingly approaching standardization of knowledge management in their institutions and for this purpose use a process that can be described as "digital Taylorism"[1], which can be compared to the standardization of processes in the sphere of production in the period of industrial transformation in transition economies.

Social change in many countries, the transition from the traditional to the modern distribution of resources and services of a modern economy become the domain of many European countries. The quest for knowledge economy, in many countries forced changes in the traditional system of work. The service sector has become the dominant sector, accounting for other needs in the labor market, and the persons involved. It is interesting to refer to the concept of "knowledge economy's", for it more and more frequently will have an impact on the development of vocational and higher education. The economy becomes a "knowledge economy" in the country, when a major factor in the process of economic development is high use and creation of knowledge. Knowledge economy uses knowledge and media expertise as a major driver of economic growth and development of economies. In many economies, information and knowledge are effectively absorbed, created, selected, transmitted and used to accelerate economic development. The definition of a knowledge-based economy more broadly, refers to the statement that "knowledge-based economy is the economy in which there are many businesses that rely on the knowledge of its competitive advantage"[2].

It should be emphasized that the development of the knowledge economy is necessary to increase the level of public education in developed countries, the developing process of internalisation economies

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[1] *This processis related to thetransformation ofwork associated withthe use of specific knowledgethroughitsproperdescription, encodinganddigitizationofinformation packagesthat canbe transferredand usedanywhere in theworld.*

[2] *K. Koźmiński, Jak zbudować gospodarkę opartą na wiedzy [w:] Rozwój polskiej gospodarki. Perspektywy i uwarunkowania, red. W. Kołodko, WSPiZ, Warszawa 2002.*

through an increase in trade in services on an international scale and the development and wide distribution of information and communication technologies. Also the World Bank refers, to the problems of the wider knowledge-based economy which indicates the conditions for the development of the economy, including: institutional and economic environment to allow free movement of knowledge, investment in information and communication technologies (ITC), to encourage entrepreneurship, educated population and having skills in the creation and use of knowledge, dynamic structure information from the radio to the Internet to facilitate effective communication, dissemination and processing of information, a network of research centres, universities, think tanks, private enterprises and adaptation to local needs and the creation of new knowledge.

Employers looking for employees formulate requirements for the competence not only needed, but also their level. Unfulfilled expectations of employers in this regard are called mismatch of competencies (skill gap or skill mismatch). It occurs at the time when the candidates work in the profession have competencies that are too low to the requirements of employers or are of a different type than those which the employer would expect from employees in these positions. Mismatch competence also applies to persons already employed and may be the result of a shortage of competence – in a situation where the employers, because of the lack of the required competencies, are forced to employ people with different (higher or lower) resources of competence. Mismatch competence leads to the imbalance in the labor market, which affects both employers and employees. For employers, this may lead to increased costs due to the need to undertake training activities (training employees with too low competence), organizational change and process all kinds of delaying the introduction of new technologies and innovative solutions. On the other hand, inadequate skills of employees mean that some people have to work not in their profession, carry on working below their competences and, consequently, do not use the learning outcomes.

The concept of *economically active population* can be described through the analysis of employment rate and the analysis of unemployment rate. However, the importance of the education in shaping the person's situation on the labour market should be stressed. It may also be noted that economically inactive population is less educated. Better-educated people, in turn, as they bear relatively higher costs of education, are more motivated to participate actively in the labour market and longer remain economically active. The level of economically active population changes with age. Regardless of the level of education, it decreases fairly rapidly beyond 50 years of age. For persons with higher education, however, this decrease is somewhat slower, while for all other levels of education the activity profiles run closely and are very similar. The economically active population which has a secondary education and in the younger cohorts is approaching the population with higher education drops significantly when they exceed the age of 50 years, so that there is no discernibly significant difference in the relation to basic education. The reason for being longer economically active may be, inter alia, lack of willingness to abandon the high remuneration, which is increasing with age among people with higher education. These people also often do not feel the need for withdrawal from labour force due to health – they are also characterized by better health.

The opportunity to be economically active is only a preliminary step to a success on the labour market. This is a necessary condition, but often insufficient, to achieve it. Only landing a job confirms that one possesses desirable assets on the labour market. Remaining unemployed and an unsuccessful job search may mean that the qualifications gained through the learning do not match the current needs of employers. Trends in the unemployment rate largely reflect the formation of labour demand, but they also depend on how the qualifications and competence of economically active population are in line with this demand. The unemployment rate is, therefore, to a large extend, a measure of the scale mismatches between demand for and supply of labour, which may in particular result from the mismatch between the qualifications of job seekers to meet the needs of employers. In 2010, the unemployment rate for the population aged 25-64 were in many European countries between 6 and 10 percent.

The situation of people with higher education during the decline of employment in 1999-2003 was relatively better, and the increase in unemployment was the lowest. It should be noted that, despite significantly lower risk of unemployment among people with higher education in European countries, the share of this group in the population of unemployed is increasing (to 13.0% in 2012). It is a natural consequence of the large increase in the share of university graduates in the population. Partly, this increase may also indicate a mismatch between education and labour market needs, especially at the local or regional level. Another potential explanation is the increase in the diversity of the human capital among

university graduates, including those entering the labour market after the first cycle studies (BA or BSc), especially the graduates of private universities, which do not offer the possibility of continuing education in the second cycle. Unfortunately, the available data do not allow us for full assessment of the benefits differentiation for education between graduates of the first and second cycle of studies. Based on the U.S. data it has been shown that each year of study means the average earnings growth of 6-7%[1]. It is worth to recall the studies conducted by Blundell in Great Britain, which, by the use of different econometric methods, show that higher education contributes to the growth of average earnings in the UK by 25%[2]. However, it has not been researched whether the expenditure on education, which is desirable in the macro-scale and advantageous to the economy, is also beneficial at the micro-level. The same problem can be seen in the microeconomic terms by analysing the choices made by individuals. In the 80's, simple models were built by referring to the article by J. Mincer, in which the level of earnings was conditioned upon the level of education and work experience[3]. Currently, economists dealing with the problems of the labour market are developing methods for analysis of the impact of factors such as the level of education on earnings by extending the previously analyzed models with e. g. more complex utility functions, or a more thorough analysis of factors such as technological progress.

Analyzing the situation on the labour market in the context of the level of education it is also worth to point at the aspect of economic inactivity, including the educational passivity of young people. Depending on the age of cohorts (19-30 years), the educational passivity is steadily increasing. This applies to both Poland and other European Union countries[4]. The educational passivity experienced by young people entering the labour market often leads to economic inactivity and consequently to reduction of their own values and psychological problems resulting from the fact of unemployment[5]. Educational passivity results in an economic inactivity and consequently leads to exclusion from the labour market and income poverty, which is a consequence of earlier events. The indicator, which shows the educational passivity and economic inactivity on the labour market is a NEET ratio (called *neither in education nor in employment or training*), which indicates the proportion of people who graduated from school or university and is not employed and does not participate in further educational process. The analysis of empirical material shows that the NEET index value for the European countries takes upward trend with increasing age cohorts. In the age group 16-20 years, this rate is the lowest in almost all EU countries and does not exceed 6%, while in 21-30 years the size of the index exceeds the average for EU countries. E.g. in Poland, every fifth person who is aged 25-30 does not undertake any educational initiative, neither participates in any training nor specialized course, which results in nearly 15% rate among the economically inactive[6]. The NEET indicator is much higher in Poland than in other EU countries, which indicates the fact of unemployment among university graduates and other young labour market participants.

Basing on the analysis of the literature it can be concluded that the level of education significantly affects not only the probability of becoming unemployed, but it also has a significant impact on its durability. Persons with lower qualifications lose their jobs more often than workers with higher levels of education. This especially applies to people with basic vocational education, among whom there is an unusually high proportion of the unemployed.

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[1] *D. Acemoglu, J. Angrist: How Large Are the Social Returns to Education? Evidence From Compulsory Schooling Laws, NBER Working Paper 1999, No. 7444.*

[2] *R. Blundell, L. Dearden, B. Sianesi: Estimating the Return to Education: Models, Methods and Results, IFS Working Paper 2001*

[3] *J. Mincer: Investment in Human Capital and Personal Income Distribution, Journalof Political Economy 1958, vol. 66/4, pp. 281-302*

[4] *Despite the increase ineducational passivityinalmostall countries ofthe European Union, unfortunately this ratio remains ata relativelyhigher level in Poland in compare to other countries.*

[5] *D. Kotlorz, A. Skórska, R. Jeż, T. Jastrzębski: Psychologiczne skutki bezrobocia długookresowego w Polsce (In:) Psychologie a nezamestnasnostzkusenosti a praxe= Psychology and unemploymentexperience and practice: sbornik referatu z mezinarodnikonferencekonanedne 24. Cervna v Brne / ed. BozenaBuchtova; Masarykovauniverzita v Brne. Ekonomicko-spravnifakulta. Brno 2004, pp. 113-121.*

[6] *For comparison,we can citethe resultsof the Scandinavian countrieswhere the proportionof economically inactive peoplestands at 9%.*

Summary. The education system is particularly important in a situation of economic collapse and economic crises that occur in all European economies. The labor market is the place where disturbance and the collapse of the market process are severely felt. It is in the labor market where it comes to meet basic learning process for both participants and stakeholders involving the effects of the educational process (graduates). Education should largely support and propose such learning opportunities, which could be used not only for the economy but by individual market participants too. Economic innovation, the pursuit of his knowledge economy and information society should guide new and creative solutions to the education system should introduce and offer participants the learning process. Only rational decisions, developed a solution based on best practice can enhance and improve the situation on the labor market, while translating into the development of individual labor markets both in terms of local, regional and international levels.

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