

ROUMANIAN ECONOMY CRISES

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ABSTRACT

ACTUALLY, THE CRISIS ACCOMPANIED PERMANENTLY THE ROMANIAN ECONOMY DURING THE PAST HALF OF THE CENTURY. CURRENTLY AGAIN A PERIOD OF CRISIS HAS FALLEN OVER THE ROMANIAN ECONOMY. EVERY TIME THE CAUSES HAVE BEEN ANALYZED BY THE ECONOMISTS YET THE NECESSARY ACTIONS WERE NEVER TAKEN OR FINALIZED, WHICH IS EVEN MORE SERIOUS DUE TO THE FACT THAT ANY CHANGE TRIGGERS INVESTMENTS. ROMANIA'S ECONOMY IS CONFRONTING A PROLONGED STRUCTURAL CRISIS WHICH ORIGINATES IN: ACCUMULATION OF PROFOUND FUNDAMENTAL CONFLICTS AND UNBALANCES DURING THE EXTENSIVE GROWTH, THE ERRORS IN ECONOMIC POLITICS, AND ALSO THE IMPACT OF THE INTERNATIONAL ECONOMY AND CIRCUMSTANCES OVER THE INTERNAL FACTORS MORE THAN EVER THERE IS THE NEED FOR AN EFFICIENT STRATEGY ABLE TO PULL ROMANIA OUT OF THE CONTINUOUS CRISIS.

KEYWORDS: *CRISE, RISKS AND VULNERABILITIES, SUSTAINABLE GROWTH*

System crisis phase of centralized economy, which deepened at the beginning of the 80s, became explosive towards the end of last century and collapsed as a result of the 1989 revolution. Actually, the crisis accompanied permanently the Romanian economy during the past half of the century. Currently again a period of crisis has fallen over the Romanian economy. Every time the causes have been analyzed by the economists yet the necessary actions were never taken or finalized, which is even more serious due to the fact that any change triggers investments.

The present situation of the Romanian economy is the result of the joint action of multiple forces. First of all, it is essential to try to position the economic system of our country in the world economic system, but also it is important to analyze the recent past and the causes that positioned Romania in the current place.

The change in the property structure was done under circumstances that generated injustice and dissatisfaction, sometimes finalized through the abandonment of the private initiatives which are crucial in such a weak market economy.

The existence of contradiction is specific to all objects and phenomena. Starting from the principle of continuous struggle of the extremities that are in unity, the contradiction can be seen as a process that appears, takes place, grows and ends, this being the start of a new conflicting process.

Through unity and struggle, contradiction represents the permanent motion force and the internal content of motion. Only by discovering the internal conflicts of the

processes and phenomena of society, thought and nature, their essence and their cause of growth can be understood. By these means, the theoretical and practical importance of knowing and studying conflicts in economy becomes relevant.

Economy contradictions are conflicts of the society, because economy manifests itself as a constitutive system of the global system.

For present Romania, the problem of conflicts' constitution and growth is as vital as integration problems and positioning on a continental scale.

Romania's economy is confronting a prolonged structural crisis which originates in: accumulation of profound fundamental conflicts and unbalances during the extensive growth, the errors in economic politics, and also the impact of the international economy and circumstances over the internal factors.

Additional causes of such conflicts were also the physical and moral obsolescence of the machinery and of the manufacturing technologies, and in general of the material basis.

The profound imbalances accumulated in the production area generated imbalances also in the area of the movement of goods, in the level and structure of personal consumption. In the absence of competition in a market and in the context of extensive growth in capital goods production sector, the supply for the consumption goods and services for the population was poorly developed and diversified, and also the quality was much lower than what the internal and international markets were demanding.

Besides this, there was also the contradiction between the quantity of money and the supply of goods and services, which generated a hidden inflation and an underground market for a lot of economic goods, having significant impact on the purchasing power of the population.

Consequences of these conflicts were aligned with the causes: unsatisfied primary social needs, lack of basic products, low productivity, low standard of living and also low competitiveness in the international economic relations.

Economist Anghel Rugina, in his work “Economic theory and practice in the transition era and after”, characterizes the current Romanian economy as being impacted by an overlapped crisis:

First one is an economic crisis inherited from the previous socialist regime;

Second one was born during the transition period because the problems inherited were not solved, multiplying and creating an even more serious situation;

The third one – of moral nature – could be the worst, being the credibility crisis.

In the origin of these crises there are multiple causes with different roots, but having chained effects. One of the main causes could be the manner in which the economy was built and led before December 1989; another cause is related to the way in which the reform was created and implemented; the third cause emerged naturally from the transition; the fourth cause originates in the global geopolitical circumstances, and also in the world economy which is currently in reshaping stage.

More than ever there is the need for an efficient strategy able to pull Romania out of the continuous crisis.

Rounding off the objectives included in national development strategies, plans and programmes, this Sustainable Development Strategy sets the main guidelines for action towards the adoption and implementation of the principles of sustainable development in the immediate future:

- rational correlation of development goals, including cross-sector and regional investment programmes, with the established potential and sustaining capacity of natural capital;

- accelerated modernisation of the educational, training and public health systems with due consideration of the unfavourable demographic trends and their impact on the labour market;
- use of the best available technologies, by both economic and ecological standards, for publicly funded investments at national, regional and local levels, and encouraging the choice of such technologies on the part of private investors; entrenchment of eco-efficiency standards in all production and service activities;
- the ability to anticipate the effects of climate change, to prepare solutions for adaptation in the long run and to develop cross-sector contingency plans comprising portfolios of alternative crisis-management solutions in case of natural or man-made disasters;
- ensuring food security and safety by turning to good account Romania’s comparative advantages with regard to increased agricultural production, including organic farming; balancing the quantitative and qualitative growth of agricultural output for human and animal consumption with the higher demand for biofuel production without compromising the need to maintain and improve soil fertility, biodiversity and environmental protection;
- the need to identify additional, sustainable financial resources for large-scale projects and programmes, particularly in areas such as infrastructure, energy, environmental protection, food safety, education, healthcare and social services;
- protection and promotion of Romania’s cultural and natural heritage; efforts to meet the European norms and standards on the quality of life should be pursued together with the revival of traditional occupations and ways of life in a modern setting, especially in high mountain areas and wetlands.

The objectives set in this Strategy emerged from national and regional debates; they focus on the maintenance, consolidation, enhancement and continued adaptation of the structural configuration and functional capacity of natural capital as a foundation for the preservation and augmentation its support capacity and its ability to operate under the pressure of social development, economic growth and the foreseeable impacts of climate change.

1. Risks and vulnerabilities caused by domestic and external circumstances.

The implementation of the objectives of the Romanian National Sustainable Development Strategy may be affected by deviations caused by domestic and external factors. Some are foreseeable, although their impact is difficult to evaluate, quantify or place in time.

The model proposed for the long run is one of potentials, as the dynamic of development depends to some extent on resource availability and the overall conjuncture. Major deviations of national policies from the stated objectives and from the commitments undertaken by Romania as an EU Member State are improbable, but delays and lack of coordination in their implementation are possible.

The following can be regarded as main endogenous risk factors:

- opportunistic adjustments of economic policies as a result of political instability and/or disregard of sustainable development principles,

- depending on the composition of parliamentary majority or the doctrines of political parties then in office;
- delays in the implementation of an improved decision-making system and failure to enforce the accountability of public institutions for the results of the policies pursued by them, to use impact analyses and to apply systematic, proactive monitoring techniques;
 - continuation of negative demographic trends, deeper population decline and the occurrence of structural imbalances with far-reaching economic and social implications;
 - formalistic and ineffective cooperation of public institutions with the private sector (business associations), professional associations and social partners in the preparation and implementation of public policies and measures to enhance competitiveness through improved resource and labour productivity, export promotion and efforts to ensure macroeconomic balance;
 - patronage-based selection of priorities in the allocation of public funds at the expense of projects that have a potentially major, positive socio-economic and environmental impact and are based on a competent evaluation of the ratio between financial effort and effects in the medium-to-long term;
 - delays with regard to decentralization and to measures aimed at substantial improvement of administrative capacity, of the potential to generate projects that are eligible for financing in terms of economic, social and economic efficiency, and to execute such projects within the deadlines and on the terms set in the feasibility studies; further procrastination may reduce the rate of access to EU funds and may jeopardize the ability to cover the current account deficit;
 - limited effectiveness of policies aimed at continuing the disinflation process, which may have a severe negative effect on the macroeconomic balance and sustainable economic growth;
 - poor ability to anticipate the incidence of extreme weather events resulting from climate change (long periods of drought, floods, pandemics) and to take measures toward limiting their potential effects on public health and wellbeing, farming and food prices;
 - income growth decoupled from productivity growth as a result of populist policy decisions taken during pre-electoral periods and of tensions on the labour market due to the deficit of experienced workers in certain areas;
 - belated implementation of adequate policies to reduce energy intensity and to cover energy requirements for economic activities and private consumption in a sustainable manner;
 - ineffective use of public funds earmarked for initial and continued training of human resources and for supporting research-and-development and innovation activities, which are key areas for sustainable development.

Some of the **external risk factors** to be taken into account are:

- the expansion of external migration beyond the limits of sustainability following the adoption by certain more advanced countries of immigration policies that have not only an economic dimension related to a workforce

deficit in particular sectors, but also a demographic dimension, namely to mitigate the impact of low birth rates and population ageing;

- a stepped-up trend toward higher oil, natural gas and uranium prices that can have a severe impact on inflation rates and energy security;
- uncertainties about the attitudes of foreign investors toward the emerging markets that are likely to be caused mainly by current account deficits and unpredictable fiscal policies, with negative effects on the amounts and quality of investment in the productive sectors of the economy, and on the ability to use such sources in order to cover the current account deficit;
- increasing cost of external financing as a result of international financial turbulence and of a possible downgrading of country risk rating, which may have undesirable effects on the exchange rate of the national currency and on inflation rate.

2. Sustainable growth: structural change and macroeconomic balance.

This National Strategy is built on the premise that accelerated development in the medium and long run in its three essential components (economic, social and environmental) is not just one of the possible options, but an essential precondition for gradually closing the gap which still separates Romania, in terms of quality of life, from the EU average level within the shortest possible time and for ensuring real cohesion both nationally and in the broader EU framework.

The main medium-term economic objectives that have been set in national development programmes in line with the targets of the revised Lisbon Strategy, the General Economic Policy Guidelines and the Stability and Growth Pact of the European Union, are:

- to maintain macroeconomic stability, to continue the process of disinflation and to limit current account deficits;
- to improve the predictability and performance of fiscal policy, to attract and use more efficiently the available European grant funds;
- to continue and deepen structural reforms, to provide improved healthcare, education, training, research and development services, and to pursue the necessary reforms in order to increase accountability and efficiency;
- to improve the business environment, to promote entrepreneurial culture, to increase flexibility and participation in the labour market and to promote harmonious regional development;
- to pursue public administration reform.

An essential condition for meeting the objectives of sustainable development is to implement an adequate combination of coherent macroeconomic policies that should ensure the sustainable use of physical and energy resources for economic growth, the provision of financial resources for those investments that are strictly necessary for the modernization and increased competitiveness of economic sectors producing goods and services and of infrastructure, the continued training and improved performance of the labour force enabling it to respond to the demands of technical and technological progress. The analysis of Romania's economic progress during the past 18 years warrants the conclusion that, to this end, it is also necessary to address a series of crucial issues:

- an optimal combination of private initiative with rational public interventions relying on flexible policies aimed at correcting market

dysfunctions. State intervention in the economy must target only those areas where market forces alone are more likely to waste resource or take longer to resolve the problems. Such interventions should be based on preliminary investigations and evaluations conducted in an impartial, independent and transparent manner;

- a significant improvement of the structure and functionality of central, regional and local public institutions, a more precise definition of their responsibilities and ability to cooperate in order to enable an accurate evaluation of their performance and to single out those areas where further measures to increase administrative efficiency at all levels are required;
- stepped-up decentralisation in line with the principle of subsidiarity to be accompanied by measures to enhance administrative capacity and decision-making competences;
- systematic pursuit of the objective of social cohesion as a precondition for sustainable development; periodic reviews, with this aim in mind, of wage, fiscal and social policies.

Without claiming to offer a substitute to the existing development programmes for Romania, this Strategy offers an outlook that is focused on long-term objectives which transcend the current planning timeframes and electoral cycles. It follows the logic of sustainability standards stipulated in European Directives and mainstream global trends.

Labour productivity growth and higher employment

Labour productivity in the entire Romanian economy (GDP per employed person) as well as at sector and enterprise levels (gross value added per employee) is still vastly inferior compared to the EU average. The relatively low level of Romanian wages, particularly at the lower end of the scale, can be explained in part by this productivity gap, which is reflected in approximately the same ratio between the quality of employment and the amount of disposable income.

The sluggish renewal of the technological base, poor quality of infrastructure, chronic under-financing, weak contribution of national research and development, substandard performance of the domestic products and services on the market, inadequate ability to adapt to globalization have been the main causes of unsatisfactory labour productivity and poor returns on the resources used. Although the rate of labour productivity growth in Romania, especially in the processing industries and construction business, has been higher than the EU average in recent years, the difference is still very high.

Since resource productivity (amounts used versus returns) and labour productivity are the main determinants of efficiency and competitiveness and, implicitly, of the sustainability of economic and social development, significant efforts will be required in terms of investment and managerial expertise to remedy the present situation and to match the current EU standards. The urgency of such measures is underscored by the unfavourable demographic developments which tend to get worse in the case of Romania.

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