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The market economy in transition and the accuracy of the economic results. Is the economic growth of Romania in the last years a real one? (second part)

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Abstract

The way the results of the human activity are measured has been and still is a major theoretical and practical concern of the economic world. In this article we are particularly interested in analyzing the circumstances that provide a real image for the economic results at macroeconomic level. We keep as our main interest the technology of value making process in market economy and the relationship between real and nominal economy in this process. We apply the theoretical aspects on Romania in order to analyze the way macroeconomic indicators are reflected in the population living standards.

Keywords: economic growth, transition, employment, technology

The statistical indicators for 2006 provided by the National Institute of Statistics show a general positive evolution of Romanian economy, as against the previous year. As a whole, the national economy seems to be on a positive trend. The growth ration of the main indicator, GDP, was of 7,7%, almost double compared with the one in the previous year and very close to the one registered in 2004, which represents the maximum historical value (8,4%) after 1989.

Even if we go behind the relative and somehow esoteric character of this index and we use other comparative data much easier to understand, we still ascertain encouraging evolutions. For example, the industrial production raised during 2006 with 7,1%, with some differences between sectors (manufacturing 7,8%, electric energy, gas and water supply 4,4% and mining and quarrying 2,4%). It must be mentioned that this positive evolution relied on a considerable improvement of labor productivity, of +10,5% as against 2005. For not providing a false image,

we mention that, if comparing ourselves with other more developed economies, our productivity levels are 2-10 times lower, which means a huge gap to be filled.

The industrial production growth was accompanied by a turnover growth of 6,1%, even if, during the whole year, the national currency had continuously appreciated itself as against the main currencies. This proves that we can talk about a real growth which be traced in the sold output and not in the inventories.

If we refer to the construction sector, 2006 brought a spectacular evolution, considering the increase of works value with 19,3%. This increase relied both on the volume growth and on the growth of the market through prices adjustment in the context of an expanded demand. The figures would be even more spectacular if taking into consideration the works contracted in 2006 having 2007 or 2008 as deadline. The trade also had a positive evolution, the turnover for enterprises having as main activity retail trade increasing with 24%. This proves that the households' propensity to consume grew considerably, as a result of the real income and savings growth.

Even with a lower ratio, the population market services had also grown with 13,6%. If we put this information together with the one regarding the retail trade, we can assert that the overall evolution of private consumption shows the same ascending trend, surpassing all expectations and creating inflationary pressures. Fortunately, the National Bank policy for inflation control was an efficient one.

As a negative aspect regarding the consumption, it must be stated that it relies especially on import products, this being reflected in the balance of foreign trade: if the exports FOB in 2006 were of 25850,5 euro million (with 16,2% less than in 2005), they were significantly surpassed, both as volume and growth rate, by the imports CIF of 40745,8 euro million., with 25,1% more than in 2005, showing this way a trade deficit of 14893,3 euro million in FOB/CIF prices.

Although on short term this deficit is not a reason to worry about, because it can be covered from the National Bank reserves, also at the maximum level in history of over 32 euro billion, on long term it can be a threat to the future economic growth.

Therefore, on the whole, *Romanian economy has a positive evolution*, being in a strong stage of the economic cycle. Despite all of these, the statistical samples show that almost *half of the population is not satisfied* with the direction the economy is making for or does not have a clear opinion on this subject. At the same time, a considerable percentage of the population appreciates that *living standard is below the one in 1989*.

Looking at the situation from an analytical perspective, we will try to explain why the accelerated growth rates Romania is having for the last three years have not reflection in raising of the living standard.

At a first glance, the average growth of approximately 7% registered during this period should have correspondence in an improvement of the population living standard. Statistical data show that this correlation exists. Still, why the feedback is so weak at the level of the majority of population? Why the GDP surplus, substantial from the statistical point of view, has no correspondent at the level of the households' perception?

The answer is too complex to be found in one direction and it also cannot be exhaustive. We will try to shortly analyze a few factors which, in our opinion, can bring some elucidations on the subject.

From the beginning, we must mention the fact that *the economic growth of the last years is mostly due to a substantial volume of foreign investments*. Only in 2006, the Romanian economy benefited of 9,082 euro billion foreign investment, with 74,24% more as against the previous year.

The advantages these investments brought to Romania are related to technology and know-how, exports fosterage and trade balance adjustment, openness to the international markets, the increase of technical capital volume, formal and informal support for restructuring and privatization, the decrease of unemployment and the increase of wages, a better fulfillment of consumption needs, a stronger competition etc.

Even if, at the macroeconomic level, the positive effects can be found in the adjustment of the main disequilibria and in the positive indices of economic activity, some of these advantages cannot be directly and immediately perceived by the population, their effects being a matter of time.

There are certain population categories that immediately and directly benefited from the advantages of FDI. Even if at the beginning the wages in certain branches where there had been created new jobs due to foreign investments were low (this aspects being one of the competitive advantages that made the foreign companies to invest in Romania), the growth rates accelerated and led to a segregation of the labor market in well-remunerated fields (energy, finance, IT, etc.). Unfortunately, for most of the population, the investments were orientated mainly towards fields which require high or medium trained labor force, in sectors such as industry or services. But *half of Romania's population lives in rural area and has a professional training below the average*. This aspect restricted the access to better paid jobs.

This situation was augmented by a certain concentration of capitals in certain regions of the country (the Western area and Bucharest, Ilfov, Constanta), which led to a new regional segregation, overlapping the first one. This way, the sum of all the advantages/disadvantages resided in big differences in the labor market and in a concentration of positive effects by certain categories and collectivities.

Evaluated as a whole, the wages real growth was of 29,6% in December 2006 as against December 2005 and, pay attention, of 16,6% as against October 1990. In other words, *according to the average, the individuals are better paid* than before 1990, period which is often considered to be one of reference. But this happens only according to the average. And the average measures, especially the arithmetic mean, can be extremely tricky when they are calculated on high amplitude intervals.

The average for 1990 was obtained by summing up wages that had been even out by a communist system interested in leveling away the extremes. The average for 2006 was calculated by summing up some heterogeneous values, including wage differences of 50:1 in the same sector (respectively, the banking sector). From the macroeconomic point of view this is not of great importance.

But for the sociological indicators which reflect the degree of population (dis)satisfaction about the living standard, the effect is troubling. *The wage disparities between different employment categories, between rural and urban areas, between the different regions of the country are already a reality of today's Romania.* The early stage of capitalism we are in nowadays looks like what Marx called the accumulation of the capital. It is a difficult period when the business environment does not necessarily develop itself according to the classical principles and microeconomic efficiency does not frequently generate positive externalities. In this “one for oneself/one takes what one can” struggle, there are winners and losers. The affiliation to either category is not always a fair reward for the effort, the capabilities or the knowledge the person poses.

Consequently, the psychological pressure weighs on many of those who did not get a piece of this social cake. That is why the dissatisfaction is huge and frustrating. The majority does not know that this stage will go over, that the economy develops through the accumulation of capital, that the mechanisms of the free market will become functional, that the economy is an engine which needs a running in time in order to function at maximum capacity, that finally herself, the majority will benefit from the power of this engine even it does sit on the driver's place.

Another explanation is related to the structure of Romanian economy and the employment structure by activities of national economy. Presently, agriculture's weight in Gross Domestic Product is of approximately 7%.

Despite these, it involves more than one third of the existing work force and satisfies the necessities of the half of country population. We see that, practically, at the national economy level, a significant part of official or underground labor is used in agriculture of subsistence, with low productivities and almost incapable in creating value added. The value added is obtained through exchange.

The exchange is not a capitalism caprice. It appeared before it and it was born out of the necessity of a better satisfaction of the needs. It was generated by the division of labor, thus by the individuals' specialization in certain activities or operations, motivated by different reasons such as productivity, resources endowment etc. Unfortunately, the Romanian agriculture must dive into the past, go all over this ancient history and rediscover the principles of prosperity: private property, specialization, production, market, consumption. Excluding the market from this circuit ultimately leads to the other determinants atrophy. This way we are caught in a vicious circle in which the interest in agricultural property disappears because it brings no advantages. The value of property decreases. In a closed system, according to the marginal utility principle, the productive agricultural lands could become rare and their value increases. But we live in open economies, which mean that the deficit of domestic production should be compensated through imports.

So, we are in a paradoxical situation where although there is a demand for agricultural products, it is covered through international exchange and not through the domestic output. From the consumer's point of view there is no problem, at least on short term. For the Romanian peasant this is a tragedy; and not only. Because this situation becomes a social problem, in which the productive ones, the ones employed in efficient industry sectors or services will have to sustain, through the taxes they pay, the socio-economic problems of farmers and agriculture.

Therefore, the low returns in agriculture have a strong impact both on those who are directly involved, the farmers, and on the entire national economy through the small contribution to national income and through the decrease of national disposable income, by increasing the taxes and redistributive social contributions, increase which will burden the productive ones.

Another turning point in the evolution of Romanian economy was the moment of introducing the *exclusive tax rate*. Besides the skepticism this decision was accepted with, the positive effects turned up quickly, especially at macroeconomic level. Having liberal origin, illustrated by A. Laffer (1979) as a useful method to increase government revenues and to stimulate microeconomic activity, it had as purpose to flush out that part of economy which develops in a parallel and illegal system.

Until introducing this method of taxation, the experts estimated that the size of underground economy in Romania was of almost 40% of the official GDP. Such an impressive dimension of the parallel economy meant that substantial incomes were not registered in the national accounting system.

In this case, there was a sort of compensation between the dark statistical data which were reflecting living standards that were lower than the real ones and the underground revenues which were increasing the disposable households' income.

Because of the high taxes which were supposed to be paid the economic agents reported only a part of the incomes. After introducing the exclusive tax rate, a substantial part of these underground incomes cropped out and it became possible to register them officially, which led to an improvement of macroeconomic indicators.

Still, from the point of view of households' real incomes, there was not such a big difference. They have remained pretty much the same, only that now they are legal and can be registered. This is one of the reasons why, even if the statistic data have shown significant increases of the disposables incomes, they are equally reflected by the welfare surplus.

If we take into consideration the part of GDP representing taxes and contributions found in the category of public expenditure, we have no good reason to consider that Romanians incomes are overtaxed. We have benefited, at least in the last two years, of an exclusive tax rate on global income of only 16%, one of the lowest in the whole Europe, and the average GDP percentage allocated for public spending is about 25%. These low contributions should lead to an increase of the individual level of satisfaction and welfare. And, still, this does not happen. A possible explanation is related to the way the resources attracted to the budget manage to enhance positive redistributive effects.

Generally speaking, *the problem consists in the way the public funds are allocated.* And this is a problem in all over the world. The reasons have been intensively debated, especially within the famous American school, Public Choice. The government representatives are tempted to use the public resources in a self-interested way for the purpose of maximizing their own economic benefits. This reality makes public funds to be allocated on incorrect reasons and destinations.

The state often overestimates the value of goods and services purchased from the private sector. Without a real competition, the acquisitions are often made at prices above the market level. As their dimension is substancial (only for goods and services and capital goods the forecasts for 2007 are of aproximately 13076,5 Ron million), the impact of overestimation on GDP is significant. We have mentioned only two chapters of the expenditures budget for 2007. If we apply the well-known rule of public expenditures 10% (which means that 10% of each public transaction go to the private spheres) and we take into the consideration the fact that their value for 2007 is of 64630,7 Ron million, it follows that an amount of aproximately 6500 Ron million, representing almost 2% of GDP, makes the value of the state transacted goods and services inexcusably high. In our opinion, the calculus is very optimistic, even at this level. In reality, the 10% hide and facilitate the increase of prices level in a much higher proportion.

The public-private partnership contracts often lack a total transparency, at least one of the parties always invoking the confidentiality clause. Although the Law 34/2006 for public acquisitions stipulates that the public acquisitions are and must be complied with punlic

information, in reality this does not happen, many of the drawn up contracts imposing for the private party the confidentiality clause. This way, fund abductions or inefficient fund allocations are kept away, in a mutual agreement with the government representatives which, at least theoretically, should supervise the contracts.

Ultimately, it is about significant loses of resources which, normally, should have provided a range of services such as health, education, social work, infrastructure etc. As these categories of services are compulsory, population is forced to obtain them from the private sytem, which, of course, involves a supplementary cost.

This way, services which should be paid for only once, are paid twice. For example, according to Government Ordinance 150/2002 regarding the organisation and functioning of the health social insurance system, the employed persons must pay 6,5% of their earnings, in order to have access to free and first-class health services. But only a person who has never been ill can believe this.

Most of the patients who need health services are obliged to give up gratuitousness because of reasons related to poor quality, lack of medical endowment, lack of professionalism etc.

This way, even if the calculus of the personal incomes foresees health services and their value is deducted, the difference being normally used for consumption and savings, the households have to deduct it once again. So, the personal disposable income and the consumption diminish. The same thing frequently happens in education, pension system, even in personal security etc. All these are supplementary expenses which burden the personal budget although they should be paid from the taxes and contributions the employees pay to state.

Conclusions

The problem of economic growth in transition countries is not a simple one. Having various structural problems, without a free market experience and with an immature property system, transition economies, including the Romanian one, have passed different searching and experimenting phases. Talking about Romania, we can say that after a long period of wandering, it seems to have found the way to economic growth. Because market economy's institutions are not completely strengthened, the effects of the positive evolution are different perceived by the households. Discrepancies may appear between different areas and social classes. The cake of welfare is not equal distributed any longer and this is hard to be accepted for a nation which, for a long period of time, has been indoctrinated with equalitarian principles. Adaptation capacity to the changes generated by an incipient capitalism differs. This is why one can frequently meet the appeal to paternalist authority. But there is a dialog strongly vitiated by the parasitical component

of the state and by the perverted institutions from fulfilling public interest to private interests. Lying between an unable state and jungle capitalism, the inadaptable human being seems to have given up searching his own ways to welfare. It is the entrance to a vicious circle in which the hope disappears, although there are still left solutions: a better education, market integration and the identification of the financing sources for surpassing technical barriers to entrance in certain activities, giving up the automatism, a higher pressure for reforming public institutions, etc. On society level, there have appeared models of success which can be imitated and which show that market economy brings with it advantages and that it can something different from a null game.

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