

AN ISSUE OF DEVELOPMENT STRATEGY FOR THE ROMANIAN ECONOMY IN THE EUROZONE CONTEXT

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Abstract

This paper aims to identify the mechanisms by which the state and the entire economy will be geared towards identifying feasible solutions for creating a sustainable and lasting economy. This will require reforming the role of the state in the economy, depoliticizing actions and deeds that ensure the sustainability of the economy to eliminate corruptible actions and factors supporting corruption of the statistic system and those adjacent to them. Currently, the state economy is viewed piecemeal, based on the categories of economic agents who are being assisted or with whom they are developing partnership relations. The state also influences the social and economic conditions through the legal system, through promoted actions, generating systemic attitudes and behaviors at the entire societal community's level. The state is directly involved in ensuring the welfare of society, if we look at this aspect through the prism of promoting factors of welfare, respectively endowment with factors of production, access to education, legal system that encourages the right to employment, infrastructure investments to accelerate the process of compatibility of the economies, with the auxiliary objective of creating alternative jobs but also moving to a higher stage of development in line with the principles of sustainable development.

Key words: economy, economic orientation, state, social protection, social economy

INTRODUCTION

Romania's economic priorities and objectives will focus on areas eligible for structural interventions and the need to correlate strategic investments in areas of interest of the Romanian economy with natural endowment with production factors. It also requires a new dimension to financial support of the European Union, amounting to around 4% of the annual GDP of Romania, plus national co-financing. This means an annual grant assistance of about three times higher than the pre-accession financial assistance granted, focusing on the following areas:

- ✓ Increasing economic competitiveness and development of the knowledge based economy
- ✓ The development and modernization of transport infrastructure
- ✓ Protection and improvement of the environment

- ✓ Human resources development, increasing employment and combating social exclusion
 - ✓ Development of rural economy and increasing productivity in the agricultural sector
 - ✓ Support balanced development of all regions of the country
- Absorption of structural funds in the Romanian economy should catalyse all political forces to formulate and implement a necessary economic framework ascension process. Romania is in a difficult period of the initial stage-specific integration into a functional competitive economic area. The development gap to the EU economy is all the greater as the lack of funding for investment in creating jobs reverberates exponentially affecting social stability of the workforce, the obsolescence of the moral values of the society such as the interest in education, family, religion, community in favour of antisocial practices as bribery, corruption,

discrimination, facilitating crime, depreciation of neighbours and the environment. That is why increasing the absorption of structural funds would empower Romanian society, institutions and businesses alike in accessing financial resources with a lower economic cost of attracting from international financial institutions or the international capital market. The pace of absorption is very low, being the cumulative result of several influential factors, thus:

✓ economic factors: reduced possibility of the authorities and the economic system as a whole to facilitate the co-financing part incumbent of Romania;

✓ institutional factors: low labour flexibility of administration in relation to the volume of work and information needed to disseminate to policy makers and groups directly interested in accessing structural funds;

✓ social factors: low motivation of the workforce directly involved in the management of Structural Funds, on the one hand due to low pay and, on the other hand, because of the pressure it is subjected to, from some pressure groups or excessive media coverage or even unsuitable training of the workforce for the European rigors and standards;

✓ media factors: the lack of public accessibility to the means of mass information regarding the importance of structural funds makes the a low degree of access precisely because the means of producing sustainable development (for citizens in areas affected by poverty, unemployment, dropout) stand for the decision of citizens who do not perceive the imminence of running funds in highly affected areas in terms of capital;

✓ factors of social responsibility: accessing European funds must become a national priority, through the prevalence of information, to unlock the co-financing sources and stimulating the process of doing management projects.

In order to adopt feasible and sustainable solutions for the economic recovery of Romania it's necessary to rethink the Romanian state, considering the following factors [1]:

– manifestation of an explicit or implicit authority over banks which represents, in almost all countries, the main channels of transferring savers capital to investors;

– management of capitalism by generating tax exemptions for certain companies or sectors, exclusive license (legal monopoly) or government contracts that service investments in certain areas with high economic potential, as well as creating jobs;

– promoting policies that encourage exports through guidance methods of economic agents towards competitive products in foreign markets and helping them through some economic levers (interest rate, exchange, rate of taxation) while also promoting substitution policies of imports to promote economic growth of some economic branches or sectors;

– promoting and supporting public services that benefit the general population, without seeking to impose which sectors or industries should prosper;

– promoting green economy and elements of renewable energy in the production of goods;

– forming a rational behaviour in relation to natural resources and consumer demand;

– identifying levers of self-elimination and elimination of corrupt practices that destroy fair competition and competitiveness of economic assets on the markets.

MATERIALS AND METHODS

The paper uses the heuristic method to achieve an understanding of the factors that influence the implementation of a strategy for the development of the Romanian economy in the context of endogenous and exogenous limits. The paper takes into account the elements of national influence, determined by the symbiosis between economic, social and political, but also the regional ones, determined by the causal relations between the principles of European economic policy and the national development program/programs. Thus, in order to create a synergy between national and European development goals, we will consider the principles set out in the *2030 Agenda for Sustainable Development* that promotes the balance between the three dimensions of

sustainable development - economic, social and environmental, their correlation with the principles *The European Green Pact* which defines the *EU Development Strategy from the perspective of becoming a climate-neutral continent by 2050* but also with the principles of the *Integrated National Plan for Energy and Climate Change 2021-2030 (PNIESC)*.

The paper aims to identify national resources that, through implementation, should lead to the growth of welfare, employment, economy on the principle of sustainability. At the same time, achieving a macroeconomic balance closely follows the level of interest rates, inflation, as a means to support the business environment.

RESULTS AND DISCUSSIONS

In the content of this paper we analysed a series of factors that can contribute to the sustainable economic growth that Romania expects in order to increase societal well-being. Thus, we considered the reduction of public expenditures, in order to make rational use of economic resources, to implement a behaviour based on economic utility; adopting fiscal measures to encourage entrepreneurship and the development of the economic environment, as precursors of a sustainable economy; promoting the public-private partnership in the form of implementing the principles of economic governance, by making economic agents accountable in relation to property, assuming the decision regarding the rational use of resources, flexing the labour market, attracting investments and allocating them to areas with a high propensity to develop.

Economic Recovery Programme in Romania should focus on the following economic measures:

(i) Reducing budget expenditures

It takes the reduction of public spending measures on the background of creating prerequisites for private sector development: on the one hand to absorb redundant staff in the public sector, and on the other hand to increase the tax base (by increasing the number of firms and economic activities in the real economy) as a source of revenue to

the budget used for public investment for development. Measures which will be undertaken by the government come amid a sharp social instability, marked by a lack of jobs, rising prices amid energy and fuel price changes, damaging cost of living. Perhaps applying differentiated salary and pension cut as a solution to reduce material and psychological impact of the crisis on people with low and very low incomes (Fig. 1).

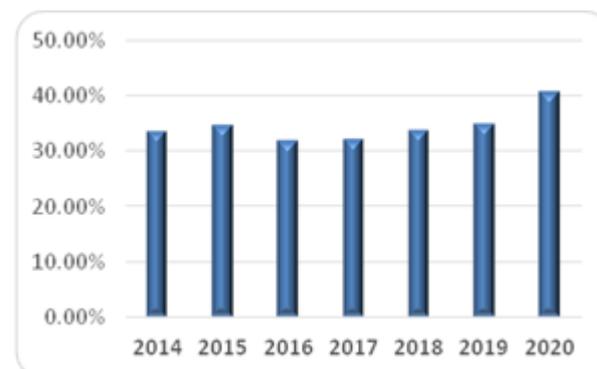


Fig. 1. Public Expenditure (% of GDP)

Source: Ministry of Public Finance, Romania [8, 9].

Besides managing the domestic economy, the government faces external pressures regarding the implementation of measures to facilitate the transition to the single European currency calendar or acceptance of specific conditions needed to implement the Europe 2020 + strategy. Thus, to enter the euro zone, Romania needs to achieve nominal convergence indicators involving measures of lowering the budget deficit to 3% of GDP, which implicitly means tough measures in the budget unit. On the other hand, the transition to Euro also requires real convergence taking measures involving, among other things, income per capita, increased purchasing power of wages in labour productivity coverage, increase capacity to support economic development (Fig. 2).

What is surprising is that to achieve real convergence necessary for transition to the euro area, Romania needs investments, especially in infrastructure, measures to support private initiative and business environment through fiscal and monetary tools, which are implicitly related to adjusting the budget deficit, respectively through increased public spending.

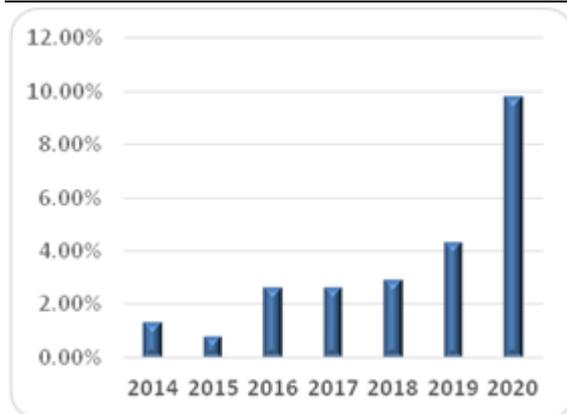


Fig. 2. Budget deficit
 Source: Ministry of Public Finance, Romania [8, 9].

The possibility of government spectrum to adjust the economy to fall into certain budgetary and fiscal targets, and to make it more flexible and accommodate the needs of growth and development without acting through budgetary anchors, becomes somewhat uncertain [4].

European strategy for 2020+ aims to increase the employment of people between the age of 20 and 64 years, up to a rate of 75%. In this regard, the private sector must be motivated and supported to absorb the labour force: either by reviving the market, which means increased demand for economic goods, and hence the demand for labour, or by taking measures to shift the workforce towards innovative economic activities, benefiting from statistic support for development, such as developing non-conventional energy production, producing environmental goods or those goods and services that are in demand in foreign markets.

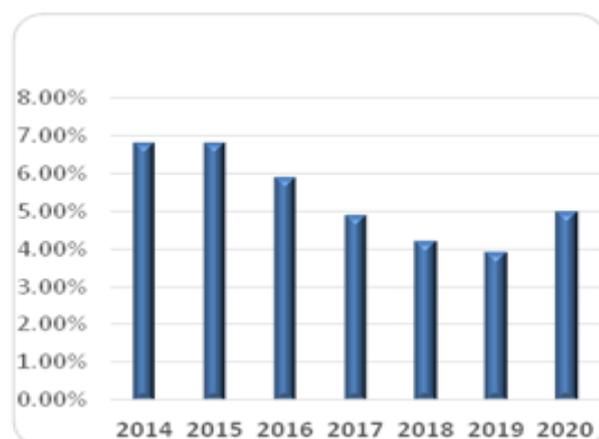


Fig. 3. Total unemployment rate
 Source: Eurostat, 2021 [6].

The fact is that in Romania the active population in the sector is very high, the organizational structure of public institutions and the autonomous bodies is overloaded, which results in inefficiency of public spending in an economy that does not ensure the domestic demand for consumption. To identify the optimal number of posts required for the public system it's necessary to identify the calculation lists of needed personnel on activities and economic transactions whose performance is assessed on the basis of real benefit to society. Thus the state must be guided by the corporate principles; adjustment of expenses should be made based on the state of the economy and the premises of its growth and development.

The danger hanging over Romania, as a result of the deepening budget deficit and external indebtedness, is the loss of sovereignty over the management of the state budget, implicitly on the formation and allocation of public revenues in the economy.

The current system of governance in Romania manages the public debt system on the international financial market in the form of hot money, which it places in search of gains resulting from higher capitalization rates. The increase of the public debt is quite high but caused by the decline of the development of the economy, still framed in a growth bubble, on account of the existing potential. This fact favours the process of attracting financing for the development of sustainable economic activities. In order to make the public debt service more efficient, it will be necessary to start the process of reducing public expenditures.

At the same time, the reduction of budget expenditures will be correlated with the efficiency of public expenditures in the form of investments in durable goods. Increasing investments and their correlation with job creation will determine a welfare effect among communities but also an exposure of the population to proactive, rational behaviours.

(ii)Fiscal and monetary measures to encourage and support business

Overcoming the crisis and resuming economic growth are the concrete measures of

supporting the business environment, being able to create jobs and adapting domestic supply to the demand of economic goods. These measures involve both direct subsidies to producers of supporting the economic sectors to ensure the necessary production, development areas and regions' economic development, reducing the tax burden.

The granting of subsidies - is highly controversial in Romania. Most times, taking this measure is discretionary, by favouring certain political client or economic areas. The subsidy should be directed primarily towards economic regions with developing potential, i.e. endowed with natural resources, labour, absorption capacity and economic assets subsidy would act by facilitating the development of economic activities. Among the economic sectors that have favoured the system of subsidies include agriculture, handicraft industry, and construction, arrangements of spas, rural tourism, and development of energy production from renewable resources.

Reducing the number of taxes to attract investors and facilitate competition in the capital markets by targeting those areas where the expected return is as high as possible. Fiscal pressure is a prerequisite for the development of economy and encouraging corruption. Also, in terms of economic legality, the trader will act to increase the selling price of the product. In any case, the increase in taxes in the economy will not act to increase budget revenues there are channels through which to escape from the trap of imposing income. The loser will be the state through the loss of taxable citizens and increasing the price of products on the market or job loss.

Differentiated application of VAT is to guide the economy towards productive activity in those areas with high incidence in the production of economic goods to attract additional investment and thus jobs, or to support its initiative favouring local producers and economic development of the area.

Reduce the interest rate to increase lending, to support private initiative and business environment. As we know, the current crisis was generated by lowering the interest rate

monetary policy especially in the US economy which encouraged excessive consumption at the expense of savings [3]. In Romania, the lax conditions of the financial market and the growth prospects of the economy stimulated the attraction of a huge flow of capital, especially on a speculative short-term 2004-2008. These capital inflows were used by the banking system to extend credit to support unsustainable consumption and investment. Once the international crisis was triggered, the Romanian economic sectors based on foreign capital were among the first affected; crisis came suddenly, when the interest rate has ceased to reflect the cheap money policy with a direct impact on the private sector and employment. Getting out of this situation was based on the implementation of adjustment measures severe spending in the private sector, emphasizing policies to stimulate productivity, increasing competitiveness both in price (cost reductions both material and wage but intensifying intensive use of technology and new factors of production) and in the quality of products to attract new market segments, especially in foreign markets [2].

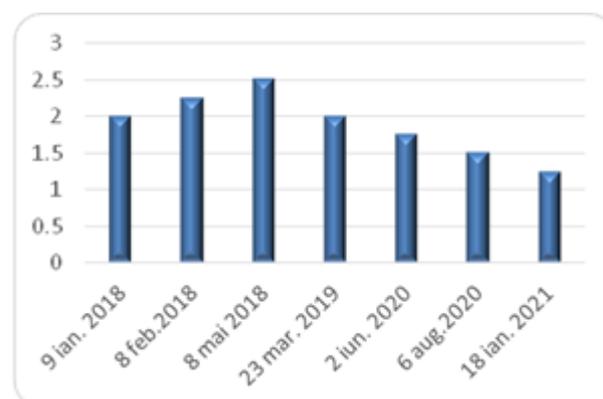


Fig. 4. Monetary Policy Interest rate
Source: National Bank of Romania, 2021 [10].

This lack of liquidity and limited access to credit has renewed especially the private system, paving the way for the adoption of development strategies based on intensive use of inputs and responding to the needs of a creditworthy category of a certain clientele. Also, another advantage of the crisis can be identified as stimulating the saving and the eradication of wasteful tendencies manifested

by a number of operators in a position to absorbing market.

It would be ideal that most Romanian companies to manifest this attitude to the crisis. Just proliferation of large budgets for expenses, both companies and individuals or to the state of economic boom, emphasized the dramatic fall of the Romanian economy with fewer opportunities to remedy in a short period of time without international support. The IMF, together with the European Union gradually injected in Romania liquidities for economic recovery and deficit reduction, on the one hand, and the current account deficit on the other. The result is not far from a revival of the economy but widening disparities while the state budget expenditures have continued amid, deepening a contraction in the private sector. The necessary measures are promoting policies to support the private sector in order to generate income for the support of the adjusted public sector [11].

It also aims at stimulating differentiated sectors of the economy based on the expected competitiveness, by promoting technical progress and scientific research, with positive impact on occupancy rates on medium and long term. These sectors should benefit from reduced rates of loaning interests or rescheduling investment opportunity.

Supporting the business environment through cheap capital inflows, coming from European money/ structural funds, can generate low costs for starting a business, which favours market development, increasing the productivity and competitiveness of an industry. This can stimulate the economy by engaging specialized labour, by creating economic goods that can cope with competition, produced at lower costs. To overcome the current pandemic crisis, there is a need to rethink the production process, reduce costs and increase value through innovation and creativity [12].

(iii) Promoting a handful of measures to encourage public-private partnerships in the areas of education and public health

In Romania, the both public education and health systems are near collapse. Financing from the state budget for revival are hardly accepted under conditions of moderate

economic growth. Under these circumstances, increased action is needed to attract private sources of financing of the two sectors to become both compatible and competitive with similar systems in the European Union.

Education requires a reorientation of educational policies to adapt their curricula to both the present and future realities of the European and global economy. Educational services market should be approached through both its flexibility and its efficiency. Investing in education is paid back over time by the proven productivity of labour, drawn into the economic process. Romania will need to develop the education system while increasing and developing the economy in order to provide jobs and increase the attractiveness of the Romanian economy for the younger generation, whose education responds to higher quality requirements [5].

Another measure to increase the efficiency of education is to implement educational policies lifelong active, to increase productivity and attractiveness of labour regarding the development needs of the employer and the market.

Health needs financial support, logistical and human capital. Impairment of a substantial proportion of the income of an economic producer or consumer for financing the health system in Romania, was not enough to increase the competitiveness of the system and efficient management of funds, for its operation from several causes: the maladministration of public funds, the existence of bottlenecks level funding channels between the state budget, health insurance funds and institutions, insufficient funds regarding the high number of public administered hospitals.

The solution would be decentralization of the health system and retaining the best health facilities to serve the real needs of the population; privatization of a large number of hospitals in order to attract funding sources to increase the quality of medical service and subsidizing medical services for some of the population in financial difficulty or with low income; public awareness of the need to resort to health insurance policies while reducing funding to cover the integration of health

services; with and without crisis, the Romanian economy cannot fully fund public services in reducing the number of contributors to the state budget because of rising elderly population and the shrinking of active population. Under these conditions, it must be supported the health system competition, between the public and the private institutions [2].

Current issues of both the education and the health systems in Romania have deep causes, proliferation and outsourcing losses, in maintaining a branched organizational structure, overloaded with un-adapted services to the lately development requirements and therefore a cumbersome and an inflexible market. The state will have to give up to a part of the budgetary management of these entities to promote public private partnerships, to increase the capacity of finance and administration, attracting investments that would grow to become reliable and competitive.

(iv) Attracting investment and facilitating public-private partnerships

Developing public-private partnerships requires the state to provide technical support (land and utilities), companies to provide capital and labour. In these conditions, works will be made in infrastructure, utilities, health services and higher education, of which costs cannot be covered entirely from budgetary sources; the success of such an association lies in negotiating power and favourable terms, of understanding, for the benefit of the consumer.

The idea of launching public-private partnerships is not innovative. Ever since 2002, the government launched an ordinance (16/2002) that regulates this kind of business but the provisions were highly restrictive, limiting partnerships in construction and the non-transparent selection procedures. Moreover, the ordinance was repealed in 2006, after numerous failures, and since then, there has been a legal vacuum. The government wants to change *The Concessions Law* to make public-private partnerships more attractive in the business environment and recognizes that the current implementation framework is insufficient to motivate and

attract significant investment through public-private partnership projects.

The need to implement public-private partnerships is a consequence of lack of funding in the public domain and reduced capacity to manage public resources in order to increase the competitiveness of public services. It also wants private sector development and the ability to take the necessary and effective managerial experience from the private sector and the consistent management of public resources [7].

Developing public-private partnerships on the one hand, involves amending legislation through which to capitalize and interests of both parties and increase transparency in the decision-making process for managing capital.

(v) Legislative changes to help more flexible labour market

It is necessary to liberalize the labour market, to make the labour supply and the labour demand flexible, having a foundation with the efficient allocation of resources and increase of employee remuneration, based on labour productivity. Great pressure of public employees and pensioners makes the efficiency of private sector employees to be decreasing; unlike employees in the public sector, most often having political support and trade unions, in the private sector, employees are paid the most, in terms of labour productivity and achieved turnover. Low remuneration is a consequence of low productivity, regarding the European Union; the low level of labour productivity achieved by employees has multiple causes, including: reduced competitiveness of economic goods carried, especially in foreign markets, low equipping of capital to labour forces, low share of consumer goods on a daily basis, which makes the revenue's volume of the producers to be low. A solution to this would be to increase the competitiveness of products through investments in quality and scientific research, and the professionalism of the workforce.

As noted, the crisis seems to have affected only the private sector, meaning that, according to movements in the economy that have significantly reduced sales and return on

economic activity, it has adjusted its personnel. Public sector efficiency can be analysed in terms of revenues collected, to cover expenses through tax levies imposed on the private sector namely, the active population.

CONCLUSIONS

Achieving a level of development for an economy that is temporarily in a state of imbalance can be achieved by assuming a continuous reform program in which to distinguish result indicators pursued by public policy makers. Any deviation from the reform process, any change in the strategy, depending on the circumstances, lead to imbalances that can only be covered by reducing public spending, with severe consequences on the level of the welfare. At the same time, the continuous reform process aims to make the business environment more reliable by supporting entrepreneurial ideas in the form of easy access to finance, encouraging risk-taking in conditions of fiscal predictability, attracting investment in order to create jobs by optimizing resources and exploitation potential of them in conditions of competitiveness.

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