THE CRISIS COST AS A PRODUCTION FACTOR

MARINA LUMINIŢA SÂRBOVAN
”TIBISCUS” UNIVERSITY OF TIMIŞOARA, FACULTY OF ECONOMICS
1/A Daliei Street, Timişoara. 300558, marinalumi2@hormail.com

Abstract:
The social costs and their efficiency were brought into a frame analysis for the distinction between the private and social (public) marginal products and costs, along the evolution of the scientific debates. While the neoclassic vision recommended taxation, as a valuable tool against expanding the negative externalities, the contemporary approaches are grounded on the complex process of internalizing the externalities, for the economic essence of the total social expenses relays in their action as production factors. Applying this resourceful theory to the context of the world crisis, the European Union uses funding tools to influence the favorable ongoing recovery of its economic meta-system.

Key words: *social costs, taxation, internalization.*

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INTRODUCTION

The present development of the economic risks related to the damaging environment is attracting additional social cost to secure the survival on long term.

Meanwhile, pollution and other externalities are lowering all competition on the contestable markets, concerning the national, continental and global level, through a mechanism of decreasing resources and offers.

A common example is high air pollution, which does more than just irritate the lungs: research confirms it also affects the way people look and their capacity of work; this is why it becomes a risk-factor that diminishes the offer of labor potential, lowering the available human resources in the first place.

The European Space Strategies are designed on the background of the hopeful empowering of the European knowledge integrated systems in order to support the ambitious targets of competitiveness and welfare for the European citizens.

They point out the main aspects of the connections among the foundation theories of integration and the economic policy and practice, drawing the attention on the social costs of changing meta-systems.

DEBATE

The inquiries upon the social costs and their efficiency aroused in the classic and neo-classic thinking: one of the first economists who argued this matter was the British Arthur Cecil Pigou (1877-1959), author of the “Wealth and Welfare”(1912,1920), a frame analysis for the distinction between the private and social (public) marginal products and costs.

This neoclassic vision upon the market mechanism which should be improved, in order to secure the economic and social progress, known as the externality model of analysis, stick to the idea that public authority should have limited prerogatives in economy, not to disturb the markets, and moreover, state is expected to correct the market failures using specific taxes and the subsidies.

The fiscal instrument recommended at the time is known as “Pigovian taxes” and it is composed by the taxes used to correct the negative externalities, or to internalize the externalities.

Apart from preferring the algebraic instrument as exemplification, the marginal approach brought interesting achievements in economic science, such as developing the field of welfare economics, in which the microeconomic techniques determine the efficient allocation and income distribution at macroeconomic levels: individuals (firms) are the basic cells for aggregating the social welfare, in such a manner that there is no social welfare apart from the welfare of individuals.

We can say that the social welfare theory, developed assiduously by the market economy pleaders, is applied welfare economics, in the trade cost-benefit analysis, where money-value estimations were preferred.

The one hundred years old doctrinaire view upon income distribution effects factored into the economic analysis was re-taken by many economists, in order to explain and give solutions to the current disturbances of each epoch.

The principle of this particularity in argumentation is given by the reality confirmed observation that the list of the production factor used and employed in the production and consumption of goods and services will never end: in each moment of the human evolution a new factor can appear, or become predominant when it seemed insignificant.

It is the grand merit of the economist Ronald Coase (n.1910) to introduce as primordial criteria in forming on the hierarchical system and organizing the production factors at macroeconomic scale after the efficient outcomes, measured by the social and integrator cost.

His remarks are founded on numerical suggestive examples, referring to the industry which produces goods for markets (positive externality, or external benefit), while it pollutes the environment (negative externalities).

Based on the economic legal practices, the advantages and profits are gained by the business, while the detrimental impact of the polluting industry is spread out the economic process.

The justification for similar economic activities (almost all of them gain profits, while the negative externalities are not undertaken by their source) lies in the observation that, in fact, the manager of a microeconomic or macroeconomic enterprising owes not a physical production factor, but only the right to perform certain actions using the involved production factors, carrying out only limited categories of actions.

Coase underlines that the owner rights are not unlimited, as one could believe, giving the example of land, where the owner cannot remove it to another place.

His approach, displayed in “The Problem of Social Cost”, 1960, draws us the attention on the larger issue that economy, in general, causes positive and negative effects; also, the positive and negative economic sides become in reality production factors, they are holding costs and all these aggregate costs will be paid by the clients, tax-payers and citizens.

One of the most important functions of the contemporary state became the survey and the administration of the externalities, or spillovers, in the sense of economic transactions which hit and affect parties not being directly involved in those transactions.

When spillovers take place, prices do not reflect the full costs or benefits in production and consumption of goods and services.

If the market supply-demand mechanism would be in line with the arisen advantages (external benefit, or positive externality), the negative impact generates external costs or negative externalities.

Especially during the latest decades, the previously called “world global problems”, such as pollution (noise, smoke, smells, etc…), global heating, the carbon-dioxide emissions, wars, epidemics, malnutrition, obesity, and so on, became critical and severe, so that nations could no longer ignore them.

Promising a general commitment, after the Rio Convention, 1992, with the Lisbon renewed projects (2007), European Union takes actions in order to solve social problems in a long term plan of sustainable development.

On a polemic debate, the representatives of “Public Choice” theorists continued until today the argumentation and debates centered on the eventually quantitative measurements of the macroeconomic decision effects, in order to compare the real economic evolution with a desirable one.

There have been exaggerations, considering that leaders do not care to over-tax the negative externalities in order to create the financial source for financing the social costs of recovery. Moreover, politicians make and order laws on a somehow “naive” ground, alike “benevolent despots”, ignoring the long term consequences.

Nevertheless, the intrinsic attributes of the social costs which include the negative externalities, in the matter of occurrence, polluter, spatial – temporal limitation, and impact of the technological generation in use, transform the externalities into a field for applying methods of internalizing such costs, as the main solution to cut them down.

What concretely is happening concerns the variation of the total costs (sum of technological, management and transaction costs) which are directly and indirectly connected to the firm actions.

When a firm is aiming to cut costs, to better compete on a sharper market, it must focus on all the externalities attributes, for each and all of them are likely to oscillate the total cost.

The difficulty of internalizing the negative externalization arises from their social, and not only economic features, and when it comes to explain the public the potential of new regulations, the natural reaction is conservative: government should be more attentive when presenting regulation proposals pack together prostitution with euthanasia, or climate changes with property taxation, although they obviously are separate items and hold distinct political solutions.

Nevertheless, at a macroeconomic level, the legislative tool always remains the grounding theory, because even the market mechanisms are included into the rules-frame of the epoch.

What best could do the political administrator of the economic meta-system is reflected with the “in field” institutions, and institutional network able of self-governing the social-cost macroeconomic production factor, in the direction of raising the global turn-over, to combat crisis undesired consequences, and to balance more advantages than loss from the imperfections of the market mechanism.

CONCLUSION

Reality observations prove that the contemporary economy evolves after a hyper-system model, owing macroeconomic entities as inter-acting components, and this paradigm imposes important existing connections between globalization of markets and European integration.

Some specialists have set up quantitative proves of the correlations between the two trends (globalization, as a world-wide motion, versus European system, focused on convergence, cohesion and prosperity), example Garret (1998), remarked empirical correlations among quantitative and qualitative indices of globalization and those of welfare expenditure.

To emphasize the inter-action related to globalization and European integration, we should take in consideration some features of the incidence of those phenomena: the dimensions of each of them, in terms of social impact on different areas; the correlation among globalization – competitiveness – labor market policies – and the welfare situation in the region; the relationship between global and European markets, in a segmental view; the distinct impact of the financial markets on EU, Euro-zone, and the rest of European countries, on one hand, and the social policies on the other hand; the nature of the two processes, which is essentially economic, but it involves a strong social connotation in European Union.

Globalization is acting indeed as an accelerator for the competition among the national social systems, and this fact is the main source for removing the human capital from one place to another.

There were fears that it will spring new forma of competition that causes social resentment which, in the end, might prove to become a serious problem for all Europeans.

That is why, for preventing social embarrassments, European countries seek together and find new forms of administrative collaboration and harmonization in which cohesion, dialogue, security, and education, play an increasingly important role.

In line with the current social and economic global problems, European Union is orienting the budget structure towards some considered key-sectors, which prevent the negative effects of the production slowing down, while the raising the total population, and especially the urban population in Europe becomes a negative externalities generator, as well as the expanding pollution.

So, the last year recorded a guiding of the financial tools to support moving to a low-carbon economy, within the larger frame of environmental and rural sustainable development, expenses in agriculture remaining stabile, to more than €40 billion.

Complying with the critical issues of the European economic system, funding the policies goes in the direction of fulfilling the social-costs in the sense of their turning into a more efficient production factor: agriculture, small and medium enterprises, environmental protection, will absorb great resources, to recover the economic trend and generate growth.

Thus, the development in rural areas will prove more commitment, by spending on the environmental fight against climate change over 40% of rural development funding (€13.6 billion); also, the LIFE+ environmental protection program will grow by 19%, reaching €317 million, and financing records plus 22% increase in the EU innovation program, directed to help EU efforts to move to a low-carbon economy by financing sustainable technologies.

Funding for cohesion grew in 2009 with nearly €48.5 billion for European Regions, recording a 2.5% rise compared to the previous year.

This was accelerated by the EU Commission on the agreement to accelerate Structural Funds financing during 2009, in order to cut down the crisis disturbances, and to support people in Member States hit by the crisis, using the lever of the increased financing for small and medium sized enterprises (SME).

Financial efforts to integrate the new member states into common EU policies was concretized in raising up the financial lines with 50% of all Cohesion and Structural Funds, during the last year.

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