

# STRUCTURAL CHANGES IN ROMANIAN ECONOMY OVER THE ACHIEVEMENT OF A FUNCTIONAL MARKET ECONOMY

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## **Abstract:**

*The aversive circumstances of the debut of Romanian transition process explain, to a large, but incomplete extent, the obvious failures that accompanied it, because these disfunctions can also be attributed to the management of the reform. Usually, restructuring does not bring positive results immediately. The approach should be explained thoroughly to have public support. Measures must be applied without hesitation to shorten duration of undesirable effects. A congruent and accurate approach of restructuring draws synergistic effects between different sectors and activities, and results can be significant in a shorter period of time.*

**Key words:** economic restructuring, reform, social structure, branches of national economy

**JEL classification:** O11

The starting point of the process of establishing a functioning market economy. The start was much more difficult transition in Romania than in other post-socialist central Europe. The economy was almost completely nationalized, the gross domestic product, private sector contribution in 1989 was only 12.8%. System management and conflict hypercentralized criteria of rationality, reality signals became completely inert. Achieving economic production units gave an oversized high rigidity.

Romania was in 1990, but in 2010, one of the lowest levels of development in Europe.

This was and is because:

- Policies pursued were often ineffective and incoherent
- Involves catching the most appropriate policies to achieve sustained growth rates and keep them on medium and long term.

Low motivation to work, coupled with artificial policy of "full employment", alter the competitiveness of domestic production and more. The cumulative effect of these factors was the deterioration of living standards for the population of Romania in a perimeter block of underdevelopment, compromising his chances to get connected to new developments of civilization. There were large enterprises with a production structure that was no longer in line with market demand and internal and external. This situation represented a hindrance to economic restructuring and privatization of the industrial system.

Removing sudden, after December 1989, the control system has resulted in a first step to deepening structural imbalances disruptive effects, exacerbated by insufficient training of politicians, managers and people in general to act under new conditions. Unfavorable circumstances in Romania started the transition process to a large extent explains the obvious failures that accompanied him. But not entirely, because they are charged and how it was managed reform. Restructuring the economic system had not been questioned yet, and open borders has been a very difficult test, a large part of the active population emigrated, and those who remained, however,

continued to do for a while what had before of inertia, or perhaps because he was the only thing that had ever taught to do.

Romania opened its borders to Europe, which work by completely different principles, other economic rules, lived another life, not as fast as needed before changes are and how much should be made to face, competition to stage than it was in shock.

### **The evolution of the economy along the way of achieving functioning market economy**

In the analysis of economic developments during the transition to a functioning market economy should specify fact that the restructuring process itself should include broad social areas, from services provided by State legislation, to stimulate production and productivity at the company's moral recovery. Yet there must be aimed at a "national strategy", this could take too long and might not lead to achieving objectives. Typically, restructuring does not bring positive results immediately. The approach should be explained thoroughly to have support public. Measures should be applied without hesitation, to shorten the undesirable .Congruent and correct approach to restructuring draws synergistic effects between different sectors and activities, and the results can be significant in a shorter time horizon.

Analysis of macroeconomic indicators, at a time, highlights the important changes occurred in economic and social as well as delays in promoting market mechanisms in the preparation of the prerequisites for ensuring sustainable development of Romanian society. Essential transformation of the Romanian economy, the former economic system was to control the opening to the world, in triggering the process of consolidation of our country that runs on developments in Europe and worldwide.

This openness led to a number of essential changes in the structure of the economy's development, bringing new elements, but also generating imbalances that were and still are difficult to control (unemployment, inflation). If before 1989 the main trade partner of Romania, was the CMEA and thereafter became a vestice. For a while these exchanges have been hampered by the composition of domestic production (our offer was not far from consistent with the application as filed by the partners 'target').

Changing to new types of production, shift to new lines of services, internal reorganization, led to gradual and increasing trade with foreign countries, and hence with neighboring countries.

Share of trade relations between Romania and the European Union has become the majority, both in terms of trade flows of goods and services as well as that of foreign investment inflows. These countries have seen in Romania, a market with very high absorption capacity, but which lacked capital. Gradually, exploited workforce was located in abundance, but unskilled properly.

External debt accumulated during the transition period is at a modest level compared to other countries that have experienced the same process of "reorganization." This facilitates the promotion of active policies to attract foreign capital to the real economy, based on increasing debt.

The persistence of high rates of inflation was one of the main causes of lower investment rates due to increased risk in the Romanian business environment (affected by many difficulties and incoherence of legislative and institutional instability, the proliferation of bureaucracy, the amplification of the informal sector). The same effect was negative and decrease national saving potential generated by the sharp decline in real incomes and high levels of lending. Reduced capacity induced compression refurbishment has maintained the slow rate of investment restructuring. It is due to the relatively small volume of FDI flows, placing Romania in transition into the group of states with the weakest performance in this area.

Another feature of the Romanian economy during the transition period was the emergence of twin deficits (the budget and current account), following the liberalization policies amid a weak economic system is structured. The current account deficit was the main source of the trade imbalance. Periodic intervention policy in the evolution of the floating exchange rate was motivated by the competitiveness of the corrections, short term to reduce the trade deficit.

The budget deficit was caused by increasing spending in the economic downturn, the deteriorating revenue collection capacity, and insufficient transparency in the budget year, which allowed inefficient channeling of financial resources. Proposing as the main anchor and control the budget deficit, the authorities have passed stringent fiscal policies. He also started their alignment to the requirements set by the European Union and international bodies, creating the prerequisites to reduce the general government deficit ratio to GDP.

The labor market was affected by imbalances in the ratio between the active and inactive population and the employment rate. Reduction of employment in the economy occurred mainly in the industrial sector. Deindustrialization-due to the way in which privatization has been the loss of jobs generated by a large and increasing number of people unemployed.

Reallocation of labor in different sectors of activity initiated by the transition has not been completed yet. Despite substantial job losses in some industrial and construction sector, the services are still poorly represented in the employment structure, announcing other major adjustments. This branch would have to absorb a large proportion of the population leading to a reduction in the share of agricultural sector, estimated to occur in the medium term, particularly in the context of EU accession.

Employment in the state sector still includes 30% of the workforce. In fact, the share of public sector employment increases to about 50% in urban areas, or when taking into account only employees. The state continues to enjoy virtually full control of utilities and is still significantly involved in the production, most of the state-owned enterprises operating at a loss. It would be necessary to continue to reduce public sector employment. The budget sector is still a need to reduce employment, with the recruitment of skilled workers in certain sectors (especially to meet EU accession). However, most important task will be to speed up restructuring and privatization of state enterprises in a distorted manner. The authorities are currently facing considerable pressure to incorporate terms of maintaining employment and investing in the privatization contracts, but this endangers the transparency and efficiency of restructuring.

Underground sector is high, although it contains in particular of secondary jobs. Data on the gray economy are scarce, but there is clear evidence from comparison of official figures relating to employment with the analysis on employment. At least 1.5 million jobs (or about 15% of the workforce) can thus be attributed to activities in the underground economy in 2000. High taxes and other labor costs outside of salaries are encouraged, no doubt, increase the economy in recent years, but the mere lack of opportunities in the formal sector has contributed to it. Furthermore, jobs are often black with half-time or seasonal, particularly in rural areas where agricultural activities carried out in the family are very widespread. Other sectors that have a high proportion of black jobs are construction, hotels and restaurants, trade and transport.

Evolution of the Romanian economy during the period under consideration is expressed in gross domestic product growth and structure the synthetic indicator of economic prosperity of Romania, reaching GDP ranged from 76% in 1990 compared to 1989 and in 2005 reached 1989. At the same time structural changes have occurred. Structure of gross domestic product is different from that which characterized

the Romanian economy in the past the share of agriculture in gross value added declined from 20.14% to 15.15% in the early 90s in 1999, following the continuation a whole reduction process in 2007 reaching a value of 7.47%, and in 2008 to a value of 7.24%, industry sector share dropped below 31% in 2002 had made a comeback when a value of 31.42%, and in the next period to fall back below 30% even in the next year 2007 reaching a value of 26.41% and in 2008 to a value even lower, 25, 61%, while services and construction sector contributed in 1999 to 56.68% of gross value added (compared to about 70% in the European Union), with 15 more points than the beginning of the decade, and in the coming years these sectors had a share of the increasingly high in 2007 reaching a value of 66.11% and in 2008, 67.16%. The significance of this process should not be exaggerated, it can be done in conditions delay the process restructuring and a pronounced economic decline in Romania. Because in 2001-2008 seems to be the main purpose was to create conditions for joining the European Union. This has been taken several measures had the effect: new long-term rigidities in the spending reduction of essential taxes (income tax on income, social security contributions). Increasing revenues for all categories those taxes.

One consequence was that the less you want the government lost control of taxation and fiscal policy was procyclical, in flagrant disagreement with the recommendations of all experts. He was wasted the entire policy space to stimulate the economy. Structural deficit climbed to an astronomical 8.5% of GDP in 2008. Staff costs budget doubled between 2005 and 2008, under pressure from wage increases (more or "hidden" in various increments) with the most consistent number salariați. Most substantial increases were directed to local governments and to the multitude of emerging institutions. At the same time it is noticed that in key areas of core public services (education and health) is still recorded very low wage income.

### **Restructuring of employment by sectors of national economy**

In the context of the transition process and achieving market economy, the labor market in Romania has undergone significant changes in the volume or structure of key indicators of labor.

This process characterized by reducing the active population or the employed population by keeping the unemployment rate relatively constant values.

During the last half of the '90s, the active population remains at high values of over 11 million people. With the new millennium, there is a slight decline, but fluctuating.

All economic sectors depend on industry developments, as these developments provide the technical equipment of its products, but also the potential to be the recipient of services.

Economic situation created by the transition to a market economy, which favored the acute manifestation of the global industry, caused a rapid and substantial change of the GDP structure by sectors of national economy.

This can be found and what we have available data for the reference period 1998-2008. The share of primary sector in GDP declined from 14.4% in 1998 to 6.5% in 2008, and the share of the tertiary sector increased from 42.9% to 49.5%.

The importance of primary sector has declined even though the configuration of farm structure and technological level of agricultural production has changed. Change in the GDP in the primary sector is accompanied by a reallocation of the labor factor in a specific process opposite trends of economic development.

Agricultural contribution to GDP growth by 7.8% and 34.8% of the population employed in 2008 in terms of agricultural yields well below those of developed countries, approaching the group Romania underdeveloped countries with low per capita real income.

As regards the secondary sector, there is a slight increase in its contribution to GDP, a population of 30.7% occupied, then in 2003 again to record a decline, so that in 2007 there was a new growth, even up to 33.4% in a working population of 29.4%. In Romania, it is estimated that in 1990 there was a degree of labor overflow about 20%. Unlike other industries, heavy industry has borne the additional personnel, since it significantly reduces competition. For managers of industrial establishments seemed necessary to maintain a certain surplus of staff to exploit the input-s periods to which the achievement of production materials are abundant.

This however, was diminished by the completion of restructuring programs and to create an industry technology competitive. In same token, should not ignore the fact that the evolution of employment in industry was influenced by the pace at which privatization took place. It can be said that the privatization process increased the rate of release of surplus staff.

In the construction can be appreciated that different countries experience has shown that in periods of revival of economic growth usually have an important role construction. It can be appreciated that the possibilities for increasing the number of people employed in construction are subject to the pace of privatization of building assembly units, the existence of investment funds, but also the support that it provides the central and local authorities domain. However, the capacity of this branch of employment is influenced in no small measure, the organizational innovations and transfer of technologies to construction companies.

If we look at tertiary sector, its importance has increased only in the relative sense, by its share in GDP, in fact, the negative effect of industrial decline was stronger than the positive effect of efforts is the development of financial and banking system, commercial network and of infrastructure.

Influence of industrial production decrease on services is expressed not only directly by determining the volume of services to reduce production, but also indirectly by lowering the purchasing power of a significant segment of the population. 33.4% population employed in the tertiary sector in 2008, Romania is far behind the developed countries, such as for example, Norway and Iceland 67.7% 59.9% population employed in services in 1999, France-68.7%, Finland-61,6%, Sweden-53,2% 2000. Activitățile in this sector have different ways of creating jobs. In the years that followed, it was considered important not only create new jobs within a certain type of service, but the concern for increasing the share of activities that use highly skilled labor.

The size of the negative impact of industry on the decline of the real economy system highlights the key position of this sector in the economy macroeconomic indicators show large national. Although macroeconomic indicators shows significant changes in the production and consumption of inputs, functional relations and proportions of macro and microeconomic level, subject to production capacity and processes of her anymore, have a strong character inertia.

The dominant position of industry in economic structures in the vertical and horizontal structures its connections branching gives it a strategic role in reviving the economy, namely economic growth.

The level of development cannot be judged only by circumstantial developments and economic efficiency of production volume, but after a certain configuration of stable economic structures and behavioral patterns of institutional traders.

In the national economic structure, industry occupies an important place in 1990, being the main source of achieving GDP and national income.

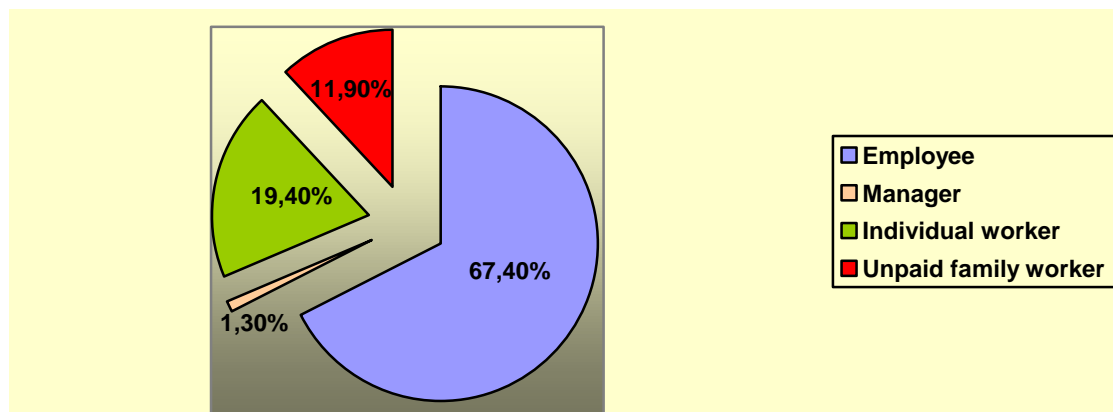
On the whole national economy, we can discuss about the existence still of autonomous companies and whose activity must be restricted or terminate, regardless of economic and social consequences that may arise from such a measure.

### Social Structure.

In 2008 the active population has almost 10 million people, of whom 95.1% are working age group (15-64 years).

Employed population showed an upward trend over recent years. Among those employed, nearly 55% are men. Until 2002, most of the employed population was a rural one. Since 2003, most of the employed population (54.4% in 2008) residing in urban areas.

A structure of the employed population in the year 2008 in terms of employment status shows that employees prevail among the employed population (67.4% in 2008) as shown in Fig.no 1:



*Fig. no. 1. The structure of employment, by professional status in 2008*

Distribution of employed population by economic sector in the period before and after Romania joined the European Union shows that in recent years, the service sector joined an upward curve, the proportion of employed people increased from 37.5% in 2005 to 39, 8% in 2008. In contrast, the agricultural sector declined, the share of employment falling from 32.2% in 2005 to 28.8% in 2008.

In non-agricultural sectors, in 2008, employed persons were present at a rate of 28.9% in manufacturing, 17.7% in trade, construction 11.2% and 7.6% in transport, storage and communications.

Positive economic trends are the increase in the ratio of private sector employment, from 76.6% in 2005 to 80.0% in 2008.

In 2008, total employment in the private sector, 64.6% engaged in industry, construction and services, compared to 58.8% in 2005. A trend apparent in Fig. No.2.

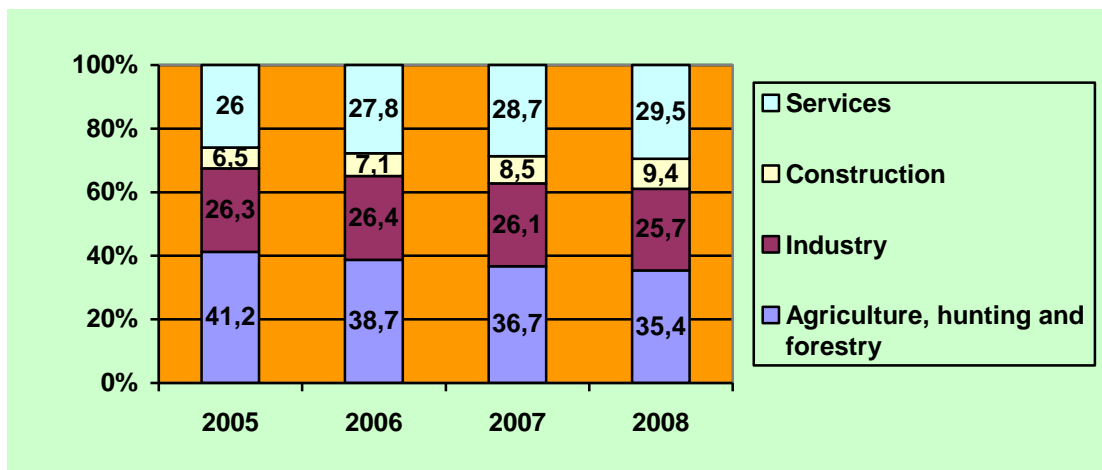


Fig. No.2. The structure of employment in the private sector, the main activities of the national economy (%)

Economy has led to relative stability since 2000, a slight decrease, relatively constant from one year to another, in terms of number of employees in the private sector especially in agriculture and industry. Compared with 2005 there have been increases in the average number of employees, mainly in activities: trade, construction, health and social assistance, while in industrial activity, number of employees decreased.

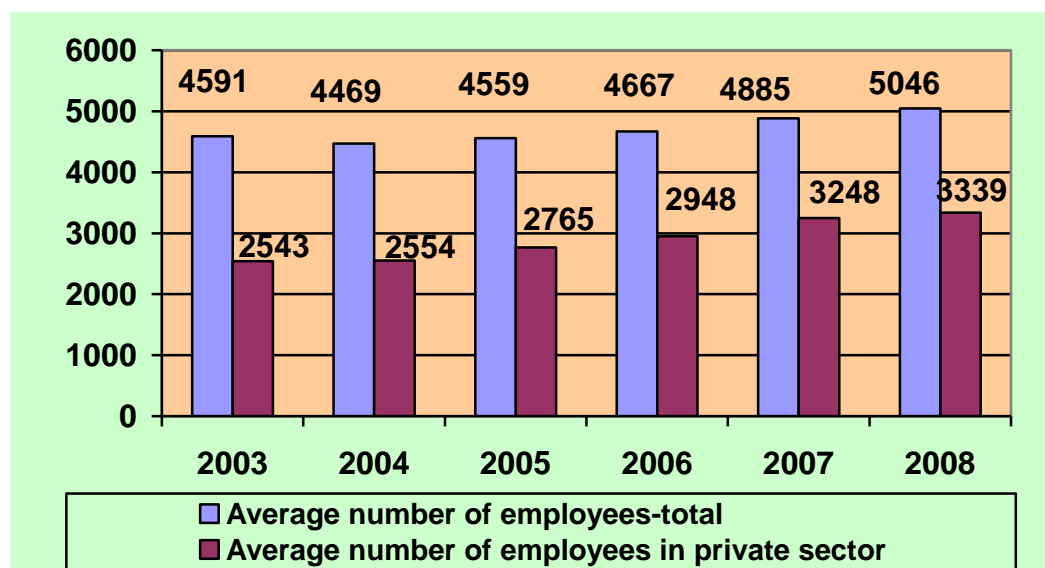


Fig. No.3. Average number of employees in the private sector, compared with the average total number of employees (thousands)

Further privatization of mutations in the distribution of employees by type of ownership. In 2007, the share of private sector employees was 64.4%, up from 2005 by 3.8 percentage points higher increase occurring in services (5.4 percentage points).

Stimulate private capital entering the economy and its sustainable development represented since 1989 core objectives of the reform aimed at restoring macroeconomic balances and competitive benchmarks. During the period under review, up to the private sector had, however, little impact on the process of restructuring the economic system, within the meaning of technological and managerial modernization of the productive apparatus Romanian producers and access to external markets. Moreover, the main factor in attracting private investment was the potential for absorption of the internal market, especially consumers, which limits the perspective of achieving the transition itself, likely to become an restricted.

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