LONG LASTING EQUILIBRIUM

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Abstract:
From the walrasian price/quantity model of correlated markets, the competitive equilibrium concept has been more or less in the center of scientists' preoccupation. Now, when the slowing down and the crisis are jeopardizing many economic achievements, maintaining an equilibrium, even with a declining trend, have become a priority for individuals, for entrepreneurship and for groups as well. The political decedents appear to be flexible to all reasonable measures in order to encourage the business environment, but their efforts do not bring the hoped prosperity, a better distribution of wealth, a stronger welfare society. Romania is in the situation of diminishing its production, production possibilities and labor resources, stroked by inflation and budgetary unbalance; the only target remained lasting equilibrium.

Key words: *competitive equilibrium, lasting equilibrium, policy.*

JEL classification: *D, E, F, O*

INTRODUCTION

Our country had in its history the experience of diverse economic models of development, from the modern economy building - during the nineteenth century, passing through an inter-wars model, a socialist, centralized growing model, and after the 1989 Revolution, an European model of dynamics, where the economic and territory convergence are targeted.

Watching the historic evolution of macroeconomic administration of its economy, we see that, along the time, the efficiency principle was mostly combined with the social one, in a mix-policy where no one prevails.

As much as we like to develop a macroeconomic welfare system, the grounding financial source for it remains the budgetary incomes, which ought to be sufficient to cut down the unemployment, the inflation, the public debt, so that on the social solidarity basis, the pension founds, the public health system, and the education network, to owe enough reserves.

Our country struggles since 2008 with the negative effects of a severe recession, measured by a trending decline: unemployment rose at more than 7%, inflation could not meet the 3.5% target, but reached 7.96% in 2010 (National Bank of Romania sources, (8), and the budgetary deficit is increasing as a consequence of the Stand By Agreement with the International Monetary Found, which was imposed by the economy decline started in 2008, and continued in 2009 and 2010.

Even more, if migration of Romanians abroad was accountable in 2005 and 2006 by 4.500 million USD remittances, which amounted 4.1% of GDP (5), in 2010, the remittances drastically decreased, so that the domestic demand of investments can no longer rely on those sums.

On the other hand, the GDP per capita did not decreased in relative terms, compared with the situation of other countries: if in 2007, a raising economic year, the Romanian GDP per capita ranked our country in the 80-th place in the global hierarchy, in 2010 the same index ranked our country on the position 79 in the top of the countries (9).

Moreover, the nominal GDP lists our country in 2010 in the 73-rd place.

If we judge the relative place of Romania among other countries, we draw the conclusion that in spite of the domestic production decline, the economy kept its relative position in comparison with the other economies.

DEBATE

Romanian EU membership opened for our country the perspectives of achieving new stages of social and economic development, promising, as part of the richer European economy, the merging of the economic branches with the similar sectors of the European economic system which was more performing.

Entering a larger and steady mechanism of goods and service production and distribution, the preoccupation for harmonizing the disposable resources with the various and increasing human needs, targeted the continental equilibrium, regulated by the Maastricht restrictions, 1991.

The idea of a large scale European market in not new, it was detailed and argued by the neo-classics since the XIX-th century, who pleaded for an optimum in the market relations, for creating an ideal competition, and also for mixing the economics principles with the social ones.

Among the most famous representatives of the optimum and equilibrium in economy we evoke the works of Leon Walras and Vilfredo Pareto, brilliant exponents of the Laussane Neoclassical School.

Leon Walras brought a spectacular contribution in the methodology of market study: he applied the mathematical equations system methods for modeling the market to its perfection (3).

He promoted the idea of a general, global equilibrium, which is dominating the market relations by the possibility of a perfect, automatic synchronization of the supply with the demand, under the price incitation: the perfect equilibrium is reached when the aggregate demand equals the aggregate supply at equilibrium prices (which satisfy both sellers and clients).

The Marginalist school correctly imagined the economy and the market like a constellation of inter-co-related variables finding themselves in a continuous shaping one another, so that they become mutual compatible and perfectly placed in the ideal competitiveness market system.

But in spite of their idealistic vision about the market pure competition, they understood somehow the impossibility of waiting for the classic "invisible hand", designed by J. B. Say, to come and arrange the elements of demand and supply in the pure equilibrium architecture.

Wallrasian work, "Elements of Pure Economics or the Theory of Social Wealth", 1874, 1877, explains the competitive equilibrium principle of reaching balance on large scale areas, like European continent, introducing an instrument of administrative flexibility of market: a groping process, which varies the prices and re-allocates the quantities of goods, similar to a large scale auction (per products).

The equilibrium generating auction, conducted by a living person, the prices commissary, successfully replaced the assumption that market will automatically balance itself.

Grounded on the short term motion of the market parameters, the final situation of the neoclassical dynamics is the same for all economies, no matter how long the allocation of supply to the demand will take: the steady equilibrium will be reached when all the goods are distributed according to the demand, and all the prices equals on all the dealing points (2).

At this moment, when the prices are equal on all markets, the stability is reached and "nothing moves": the number of firms in economy is fix, the consumers are satisfied, the profits are enough for all the economic agents in order to re-take production, and a complete utilization of the production factors is installed.

When a new product appears, the latest equilibrium is destroyed, but the next perfect contestant equilibrium will be organized instead: if the new products ensures a high profit for the first producer and the consumers buy them, than the consumption allocation will change, so that the number of firms producing the new merchandize will raise and become stabilized, profits as well.

Each such temporary stabilization, more or less durable, is an equilibrium which warrants the complete utilization of labor and capital; neoclassic thought it reflects an optimal resources allocation among the economic agents, and as long as the prices are previously known, they can stick to an optimal business plan and get a surviving profit for their firm.

The reality shows that the market balance is reached on a grounding number of unbalances, trades at lower or higher prices than the equilibrium ones.

In order to set up the perfect competitiveness at macroeconomic level, Walras proposed the lands nationalization (as main production factor of his time), a hazardous solution which was strongly criticized.

Also, an inquiring issue related to the role of price, as an automatic regulator of the market and a panacea for balancing the economy, is the optimality matter, present in the works of Walras as well, but most in the Pareto's contribution to the development of economic thinking, and argued in his "Manual of Political Economy", 1906.

Paretian optimality or efficiency is analyzing the changes in the allocation of goods, at individual levels, for both producers and consumers, and that is on both sides of the market mechanism.

He started observations on incomes, income distribution, and the study of individual choice, ending with the conclusion of equilibrium, which was a rational solution to the microeconomic problems generated by scarcity, objectives and constrains.

Somehow paradoxical, neoclassic thinking assumes that people act guided by rational preferences, still they might spend their income according to their subjective will, or even influenced by external incitation.

From this point of view, the equilibrium concept is always in connection with the free will of individuals, of firms, in an allocation race of scarce resources among subjective, alternative purposes; also, it depends of the individual level of responsibility.

In a qualitative perspective of the contemporary equilibrium, the rationality and responsibility remain a source of economic unbalance, since the public choice is an option among alternatives which incumbent good and bad consequences.

For instance, more than a hundred years ago, Pareto noticed that in Italy, 80% of the Italian income went to 20% of the population, and this distribution comes from the efficiency principle of economic functioning Paretian efficiency principle, later called simply "The 80-20 Principle", of incomes distribution in society, relies on rewarding each factor consumed in production process, labor and capital.

The changes in this distribution could be made only if participants get another preferred position, in the market game, in exchange with units of value (human preferences are associated with value, in various degrees).

United Nations calculated the distribution of world GDP per 1989, in Human Development Report, 1992, chapter 3, and found that, the richest quintile of population owed 82.7% from incomes, while the poorest 20% quintile of the population owed only 1.4%; also, the first 40% owed 94.45% of incomes, while the rest of 60% of the world population owed 5.55% of incomes (6).

Statistics show an even sharper distribution, in the evolution towards the macroeconomic equilibrium: Paul Krugman, in his "Graduates versus Oligarchs", 2006, (1), shows that the concentration rate of the growth benefits is not of 20%, as Pareto said, but of 1%, for 30 years.

If we take the gap between the rich and the poor as a serious hidden in stimulating consumption and aggregate supply, than we can com pare GINI index per countries: in 2006, USA had 40.8% GINI index, UE had 31% in 2006, while Romania had 31% in 2002, 30.3% in 2006, with a raising trend (7).

This situation shows that in our country, the social features of the economic policies decreased, and the governance pushed the inequalities in income distribution even higher (now they are higher than the EU average), with a raising trend.

This is not a situation in favor of supply-demand aggregate equilibrium, on the contrary.

The social-economic policy means not only spending for healthcare, education and pensions, but an active protection of the population, by creating much more working places, by some estimations, at least 4 million new jobs.

Governance also ought to be creative in encouraging local and foreign investments, the decisive component of a positive evolution of the macroeconomic balance, in terms of sustainability.

CONCLUSION

European Union intends to build a large scale, stabile and balanced economic system, based on "social and territory cohesion".

For this purpose, European Commission released in 2010 "Europe 2020: A Strategy for Smart, Sustainable and Inclusive Growth" (4).

This document designs the future ten years evolution, starting from the realities of European aging population, scarcity of some traditional resources and their getting more expensive, globalization and climate change, aiming to encourage the foreseen solutions: more jobs, higher productivity, and economic, social and territory cohesion; also, it becomes mandatory to ensure a cleaner environment, so that all the European industries must become low emissions industries, friendly to the waters, soil, air, to align to the requirements of a sustainable evolution: they will all be attested by environmental certificates and "turn green".

This turning green short term cost is insignificant compared to the long term benefits this new industrial age will deliver.

Our country pays its role, as a conscientious member of the UE merging economy, to implement reform, structural changes and efficiency, but for now, the home market mechanism is seriously unbalanced by a series of negative supply-side shocks, which happened last year and threatens this year the anticipated results.

During the year, the recovery process of our economy was draw back by the aggregate supply shocks, caused by the oil price rise.

Because our country is one of the traditionally produces of oil, and this is a basic fuel for all economy, the economic agents did not expect an important inflationary spiral caused by oil and oil products supply.

Also, the excises and VAT expansion put an unnecessary pressure on the costs, and consequently on the salaries (because the entrepreneurship intentions to cut costs had to be materialized inside their anticipations regarding the cost/price ratio); this raised consumption goods prices, decreased the demand and as a result, a higher taxation was applied on less transactions.

For the coming short run time frame, we expect that the major difficulty of our economy will remain the inflation challenge, because the negative supply-side shocks have not finished their succession: the natural gas expects an "alignment" to a much higher European price at this resource, in spite of the fact that our country is one of the most important producers of gas, owing great reserves from this treasure; also, our country owes good conditions for agricultural production, including the bio-production, but the exports of this products (mainly as raw materials) will put pressure on the home prices of food.

This expectation could generate an even more accentuate consumption decrease and demand shrinking.

Belonging to the unique European market, our country must defeat the fails of the so far conjuncture policies, especially the low rate of employment (entailed by low returns and even lower incomes), and to continue the structural reforms, meant to harmonize the Romanian economic structure with the European one.

It looks that, although the national potential is high, the administration of the profitable activities which could re-launce the consumption, the demand, and equilibrate the markets is far from its best.

The sustainable, long term growth rate index, as a reflection of the profits generating stability will appear only after the major Maastricht Treaty stability parameters will be fulfilled, and we enter Euro-zone, in 2015, on the latest "road map", (7).

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