THE RECESSING DEVELOPMENT

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Abstract:
For some decades now, the social attention in our country and Europe focused on the ecological part of sustainable economy. Even now, the attention is focused on the foreign debt crisis, fiscal and monetary macroeconomic plans and measures being the most prominent part of the European economic policy. The follow up of this reality is that the rising employment long term goal of European Union did not get a spectacular achievement, in terms of rising employment and diminishing unemployment, as well. Close tied to the European evolution, our country crosses a recessing development because, given the current national effects of the austerity that we all have to face and determined by the global crisis, the economic output measured by GDP is raising, even in such conditions.

Key words: *austerity, economic output, recessional development.*

JEL classification: *E24, E32, J68, O11.*

INTRODUCTION

It is not new that the national economic development relays on the economic growth process, and the economy is grounded on labor. For some decades now, the social attention focused on the ecological part of sustainable economy, somehow placing on the second position the active part of the progress, labor and job creation.

All the economic theories are put to work in various scenarios when things go wrong and now, alert points to another recession or even “the end” of the euro zone, as some skeptics threaten us.

The fact is that the job creation preoccupation was replaced too easy in European Union by the free markets theoretical principle, forgetting that the idealistic classic principle of a spontaneously allocation of the human resources according to the current demand does not happen in such a manner as to assure the full employment.

Even with many successful human resources firms helping to match the labor offer with the demand, the economic growth was not secured in the EU countries as a unique mechanism, and the debt crisis is just another face of the same fragile stability of an important economic pole which is European Union.

The core argumentation of the current priorities originates in the monetarist doctrine, considered to be the most rapidly responsive tool in re-balancing the macro economy: if the monetary stimulus works, investments could raise and, as a consequence, unemployment would have the material conditions to be absorbed.

The short run contraction of the business cycle (6) or of the economic activity (7), known as recession, brings shrinking consumption spending and diminishes the macroeconomic indicators grounded on domestic consumption.

Predictions fail to be precise, but we count on the recorded data of the GDP, as the most largely used index measuring the economic evolution: the third and fourth quarters of 2009 had (-7.1) % and (-6.5) % decline; during 2010 we had a permanent decline [Q1 with (-2.2) %, Q2 with (-0.4) %, Q3 with (-2.2) %, Q4 with (-0.6) %]; 2011 restarted a slow nominal recovery (Q1 with 0.3%, Q2 with 0.3%, Q3 with 2.6% and Q4 with 1.9%), but in real terms the Q4 of 2011 was decreasing by (-0.2) % as against the third quarter of 2011 (10).

More than that, based on the lower contribution of the agriculture in the GDP formation during the winter time, based on the decreasing of the exports and the uncertain recovery of the domestic consumption demand, the estimation for the second quarter of 2012 could be negative in real terms. This lately evolution, of two consecutive negative quarterly results, according to the Julius Shiskin's "criterion" could bring back the recession, while experts hoped for a positive yearly result, of at least 1.5% increase of the 2012 Romanian GDP.

Is the recession within economic growth a permanent feature of the development, or it becomes obvious only when the welfare of the citizens is jeopardized?

DEBATE

Speaking about depression as a long and large scale economic downturn, we cannot forget our stupefaction when realizing the evolution of the world output in 2009, compared to the previous year: the global decline was of -0.7%, the euro area decline was of -4.3%, the Central and Eastern Europe decline was of -3.6%, while the real GDP in Romania was of -7.1% (3).

It was stupefaction because in the twentieth century, by the time of the 1929-1933 depression, famous economists argued the possibility of avoiding it using the state intervention, monetary and fiscal policies.

One of the most well known opinions in this line belonged to Irving Fisher, 1932, who encouraged us in his "Booms and Depressions", saying that "depressions are, for the most part, preventable and their prevention requires a definite policy in which the Federal Reserve System must play an important role"(1)

It was not only the classics, but the contemporary economists as well, considering that the authorities, at all levels, should instrument their intervention through the central bank and its' system, trying to adjust the monetary intervention, the financial flows, production and consumption, having the result the recovery of the macroeconomic equilibrium.

Because of the recorded positive growth index during 2011, an optimistic opinion would say we have let behind the depression, but the beginning of 2012 could bring back some recessional features.

The fact that put us in the position of considering that our country crosses a recessional development is the association between the current national austerity we all have to face, determined by the global crisis, while the economic output measured by GDP shows a raising even in such conditions: from 161,624 millions USD in 2010, to 185,300 millions USD.

For Romania, the nominal GDP measured by the World Bank was of 161,624 millions of USD in 2010, up to 185,300 millions of USD in 2011, but even in such conditions, our country lost one position in the top of countries, being placed in 47-th place in 2010, and in 48-th place in 2011; in the hierarchy of countries by nominal GDP, the first place in 2010 and 2011 belongs to European Union (with 16,222,855 millions USD in 2010, respectively with 17,720,000 millions USD), the second place to USA, with 14,584,723 millions USD in 2010, and 15,060,000 millions USD in 2011, and the third place to China, with 5,926,612 millions USD in 2010, and 6,989,000 millions USD in 2011, followed by Japan, Germany, France (3, 4).

This situation proves the unconsolidated results of the Romanian nominal 2011 growth, in the context of a world recovery, where the successful economic activity and organization do not belong exclusively to the capitalist economy.

Also, considering the high volume of inter-European trade and relations, the way our country takes advantage of this opportunity is not at its desirable potential.

During the difficult time-frame of the depression and of recession, the largest impact of the negative effects press on the population and it is originating in the instrumentation of monetary policy, on wide continental areas.

Specifically for our country, the national balancing target is focused on the structural unbalances, such as employed/unemployed population, internal production/consumption, public/ private sectored development, import/export, and capital/labor ratio.

In order to stabilize the economy under the Maastricht restrictions, which we are about to meet, the government chooses the simplest and quicker mix of fiscal and monetary policies: maintaining the VAT up to 24%, one of the highest ratio from European Union, (see list of countries by VAT) (9), imposing high excises, and on the other hand, closely monitoring the monetary balance and the direct inflation targeting.

European Union and European Commission are aware of the possibility of future recessional evolution of the European hyper-economy, or a simultaneously recorded growth and development cut by recessions, and they undertake legislative and practical measures meant to improve the multilateral surveillance for the member states.

Last Year, The EU Regulation NO 1176/2011 of the European Parliament and of the Council on the prevention and correction of macroeconomic unbalances, stressed the importance of the transparent scoreboard, a statistical instrument, indicating the nominal and the real convergence inside and outside the euro area (5).

Deepening the same mechanism of euro zone re-balancing, the recent "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union" (8) seems to be a benefic administrative tool, imposing that the national legislation at its highest level (constitution) of the member parties to include a restriction regarding the national budget equilibrium: the yearly structural deficit to expand only up to 0.5% of GDP at market prices.

This "balanced budget rule" is not new in the macroeconomic management of the European economy, it also was set up in Maastricht Treaty, but the difference now is made by the repressive mechanism which will automatically sanction any disturbance of the stability coming from the deficits, and also, it places in front of this action the euro zone member states.

The so called "crisis of the sovereign debts" is seen as the main cause for the output slowing down in some of the European countries, and this regulation regarding the strengthening of the surveillance for budgets of the euro zone member states was designed to secure the credit system within the EU, to raise the trust between creditors and debtors.

The granting of financial assistance is expected to get closer to its economic foundation, being included into the European Stability Mechanism, in fact a modern "bridge" between producer and consumer: "there is however, another distributive mechanism whose name is money" (1).

The Treaty on Stability, referring especially to the euro zone EU countries, aims to implement the joint efforts toward reinforcing the financial stability and the public finances of the irrespectively economies.

An important theoretical achievement of this regulation is the fact that it makes provision against the lack of coordination among the national economic policies of the EU member states, stressing the need for more committed common governance, in order to meet the reaffirmed aims of the European construction: sustainable growth, raising employment, fostering competitiveness and social cohesion.

Title III of this document, "Fiscal Compact", stipulates a budgetary position of equilibrium or exceeding (surplus), kept in narrow limits by the Protocol (No.12) on the excessive deficit procedure, annexed to the EU treaties.

It will be a challenge for the governors and the business to feed the economic growth keeping in mind that the credit is not unlimited and also, it is better to invest it, and this definitely calls for a renewing of the European model of development.

CONCLUSION

Our country is almost ready to enter the euro zone, and takes all the measures to meet the requirements of the "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union", entailing the adding stability safety measures which will be included in the constitution.

But for the time being, the monetary policy brings the originality of the Romanian interventionism because we still have in circulation the national money, while most advanced countries of the UE have melt into the euro zone, leaving behind the national money burden.

The monetary equilibrium in our country, as it is seen by the authorized specialists is closely connected with the inflation control, adapted to the current national conditions, because the target is to meet the Maastricht criteria for entering the euro zone.

The basic principles of the Romanian strategy of monetary policy were presented by Professor Mugur Isarescu, in his dissertation for awarding the "Doctor Honoris Causa" title, in 2003: "Towards a New Monetary Policy Strategy: the Direct Inflation Targeting"(2).

Although these principles were released before our country was accepted as a member state in the European Union, there are still valid, because the National Bank of Romania, as a core institution and tool of monetary policy is currently using the same method of direct inflation targeting, method in use in other developed countries from world wide.

The essence of the argumentation is that, using the same method as other countries, we can be sure of the comparability of the measured results, and we could easier manage to reduce the inflation index down to the euro zone area countries.

An interesting observation about the European statistics of using the diminishing inflation targeting, refers to the correlation between inflation and unemployment, noticing that in most of the countries that adopted this tool, the unemployment raised as a consequence, for a time-frame of few years, being followed by a later decrease of this labor market index.

Knowing that, it is mandatory that the macro economy should be as balanced as possible, stability being a condition for any macro economic policy to get immediate response.

Another key-feature of the economic environment, in order to be fit to governmental intervention, is the harmonization among various applied policies, towards composing a credible policy mix.

While implementing the direct inflation targeting, the responsibility of the national bank is at its highest level, and succeeding to enter the euro zone as soon as possible requires a close co-operation among all internal and foreign factors involved in the harmonization process.

We are the contemporaries of permanent transformations on the world economic map: for example, according to latest prognosis, China is the third economy of the world, in terms of nominal GDP, followed by Japan, Germany, France, and other countries like Brazil, India, Russia trend for an upper place in the global hierarchy as well (3).

Watching how fast some global areas evolve, it is most realistic that our country continues the already started integration with the European Union, succeeding along the convergence process which is undergoing.

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