

IS THERE TRUST OR NOT?

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Abstract:

To rely or not on the state actions is in European Union an even greater challenge than before, because the national authority itself is a part of a larger evolving economic system, clearly regulated but unpredictable when put to work. We all wish more, cheaper and better merchandise to purchase, a cleaner and safer environment, leaving the safeguarding of the macroeconomic stability, as a fundamental condition for all these, to the state. Trust should be that situation when the citizens' expectations regarding the macroeconomic decisions were fulfilled. Remains an issue how to make trust function when the authorities were assumed to take into account the interest of all voters, but they fail to raise employment, to increase incomes, and GINI index grows.

Key words: trust, stability, expectations fulfillment.

JEL classification: E, F, O.

INTRODUCTION

The evolution of the free market economy in our country and in other small states, in the latest decades, suggested that, because of the lack of resources and credibility, the private local investors do not have much chances to develop large activities in strategic branches such as communications, mining, and even food distribution: market forces are even stronger in an unstable environment and they spin out the non competitive small business.

Still, because the current legislation in Europe does its best to encourage the entrepreneurship and small initiatives, the private business has not succumbed, and the result is an unequal development of the branches and activities, a rapid change in relative prices on the market, a fluctuant gap among the trend of diverse activities and sometimes surprising technological endowment or non-endowment of the firms.

This situation, fed in its essence by the distrust, in the sense of a lack of confidence in the authorities' capacity of administrating the collective interest and welfare, undermines the efficiency of the economic structure of the macroeconomic system, bringing in the end to increasing contrasts among the development of the world states.

DEBATE

For our country, the integration in the European Union created a historical chance of assuming a favorable goal of structural convergence and cohesion with the average level of all EU member states: a common continental growth strategy, the specialization and segmentation of the unique market, the co-operation and the exchange could boost the local productivity and better use the existing production capacities in those areas of maximum efficiency, leaving behind the artificial costs of the administrative and bureaucratic barriers.

A high capitalization degree, as the European case is, requires a similar high employment level, and the motion of the real capitals attracts labor from the areas with surplus, balancing the capital-labor ratio, especially in the strongest developed area of production.

This objective phenomenon entails dislocations and relocations of resources inside the unique European market, and consequently, sequential the local affected areas will readjust, by using the instruments of EU regional policies and funds.

It is obviously that, for the time being, the European model of development requires a definite change, and in the context of a permanent threatening of a new depression, we try to find the best way of prefiguring it.

The question is how much the model of development stabilizes the equilibrium in a Keynesian way, knowing that the current model of European economic system functions targeting a desirable growth, but with serious unbalances.

Taking the unemployment rate, we observe the increasing from a EU 27 average of 9.5% in 2011, up to 10.1% estimated in first month of 2012 (EUROSTAT, List of unemployment per countries, 3), while the employment rate does not seem to have a vigorous evolution: from 62.2% in 2000, the average EU 27 employment rate raised to 65.8% in 2008, and was of 64.5% in 2010, under the condition that the most competitive European countries recorded significant achievements measured by this index: in 2008 Germany had 70.1% rate of employment, and in 2010 it had 71.1%; in 2008 Denmark had 77.9% rate of employment, and in 2010 it had 73.4%; in 2008 Sweden had 74.3% rate of employment, and in 2010 it had 72.7% (EUROSTAT, List of employment per countries, 3).

The EUROSTAT statistics shows that EU is passing through a period when positive growth index is associated not only to unemployment, but to foreign public and private deficits, which in some countries exceeded the Maastricht directives in the domain of financial performances and safety; these unbalances could be more difficult to manage in the perspective of the permanent raising of the life expectancies on our continent, fact that signals alert about the employment-retreat ratio.

Our country, as well as most of the other states, still passes through a crisis which entailed a strong decrease of the national GDP during the last 3 years, a raising unemployment, an increasing foreign debt and consequently an uncertain stability.

The major unbalances of the Romanian economy refer to the production-consumption ratio, to the employed-non-employed supporting, to the domestic-European-non-European market, to the resources-processing ratio ; such disequilibrium are sometimes called structural unbalances, in the sense that they alter the economic structure on medium and long term.

Given this situation and the necessity of a determined intervention for decreasing the gaps between the Romanian economy and the European average level, attention should be focused on all the factors which can lead us to success, to boost the growing process and leave behind the depression.

The modern economy is exposed to a series of risks, calculated in profit loss, which put pressure from outside the economic sphere, the more global its' functioning becomes. Thus, the political, educational, sociological, philosophical, religious factors not only that have a direct impact on the level of pricing, by modifying the demand and supply market mechanism on short run, but also in the long run, the entailed effects of the extra-economic factors can even modify the macroeconomic fluctuation of activities, or even they can make a depression longer.

Many famous economists have argued in their works the importance of the psychological factors, and this influence has been conceptualized and estimated in economic terms and figures as the trust phenomenon.

The trust mechanism is based on the fact that economic agents take action by all means as a result of their previous experience: the activities they did determine their present situation and it is very common for them and for everybody to imagine that things will never change, and the future happenings are only a continuation, or an extension of the current ones.

One of the most famous argumentation about the role of trust in economy and in crisis too belongs to John Maynard Keynes, 1936, who named very suggestive the trust concept as « The State of Long-Term Expectation » (2). In his opinion, the businessman attitude of total confidence in his own background is most reasonable and creates an individual forecast of the expected trend of the follow up.

However, the entrepreneurs are aware of possible changes of the course of actions, and if the probability of dramatic changes is intuited, their confidence will diminish, they will get mistrustful.

Practical people pay the closest attention to the state of long term expectation, but because this does not seem to be the economists' field of analysis, they ignore it.

What we can add to this is that especially before the 1989 Revolution, in our country the psychological factor was rejected, as well as the crisis possibility, and now we have to face not only the ignorance, but also a large scale mentality which considered the non corporal sides of our existence as neglecting quantities.

This is why only now, when we experienced the economic turbulences and slowing down, we pay attention to the meaning of the Keynesian analysis of the trust concept: the trust relevance to economic issues comes in through its « important influence on the schedule of the marginal efficiency of capital. There are not two separate factors affecting the rate of investment, namely, the schedule of the marginal efficiency of capital and the state of confidence. The state of confidence is relevant because it is one of the major factors determining the former, which is the same thing as the investment demand schedule » (2).

In this opinion, only the state is able to calculate the marginal efficiency of capital goods taking in account the macroeconomic and social interests and it becomes mandatory that it would become more committed and responsible for directly organizing investment process, and consequently raise the bid.

The trust issue in the economic debate has not only arise as a result of the hope that state will secure us from the negative effects of the depression, in a purely Keynesian vision, such as in General theory, 1936,(2), because, the interventionism, as all phenomena, looks like a coin with two faces.

The other side of the interventionism is strongly incriminated to be one of the cause of the crisis, by involving the moral hazard, in the sense of the property economics: the state behaves as if it were a co-owner of all types of properties, when fixing taxes, when ruling the minimum salary, when disposes the administrative allocation of natural resources, sometimes far from the optimum allocation, or when fixing prohibitions.

In his "The Political Economy of Moral Hazard", 2006, Guido Hüllsmann (1) shows that it not the market failures that delivers the moral hazards, deviations from normality or disequilibrium, but the governmental management of macro economy, especially by using the monetarist policies and the legislative bindings, which unbalances the business and drive us to oscillations and crisis.

What is important about evaluating the consequences of the moral hazard, as a relatively high degree of intervention in the ownership of all types, is the remark of the paradoxical behavior of the citizens, for instance, who could feel pressured by the authorities' legal involvement in their choice of using goods, and thus prefer to exacerbate consumption and decrease investments, or to try to evade intervention by making unjustified high costs, prices, and so, their share in the whole to value more.

Under these assumptions, the authorities' intervention becomes a growth gear and an inflation generator, according to the market principles.

In Eastern Europe this intervention has historical routs in the socialist system, where the state was the owner of most of the production factors, and the discretionary administrative intervention in the economic activities was an everyday fact; the socialist

closed system, in Romania and other countries as well, end in a collapse, in a total exhausting of its endogenous propelling forces the consumption was unbalanced by the lack of production, and the impoverishment of a large part of the society.

Having in mind the end of the socialist economy experiment that was criticized for the incapacity of the optimum allocation of all types of resources, the authorities from all levels, national and European level as well, must take all the measures for the prevention of structural risks and unbalances produced by hazardously decisions.

In line with the present time tensions raised by the current foreign deficits unbalances and quasi international distrust entailed by this evolution, a great solution could be the implementation of the recent “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union” (5), meant to reinforce the balanced budget rule and to open a new way for the macroeconomic management, in order to leave behind the traps of the undue high debts.

CONCLUSION

The relationship between Romania and the European Commission, in the perspective of an even deeper integration of our country with the European Union and its member states, raises the question of trust, in the sense that, on one hand, the more developed states do not trust our national possibilities of development and the profit generating potential, and on the other hand, we do not trust the best results of the EU policy, for instance the competitiveness policy.

To give an example, when it comes to equalizing the production costs, the Europe imposes us high level of energy and raw materials prices, not taking in account how we deliver them, the distance from the exploitation or the local effective production costs, but when the productivity or yield of an exploitation should raise to become convergent with the European average, then we should not complain of paying an undue production cost.

Our national problem was synthesized in an interesting econometric macroeconomic model by Robert E. Lucas Jr., 1988, who argued in his “On the Mechanics of The Economic Development” that an economy beginning with low levels of human and physical capital “will remain permanently below an initially better endowed economy” (4).

To solve this pessimistic solution of the growth and development model, he suggested the introduction of a comparative advantage of the respective economy, strong enough to break the “vicious circle of poverty”, such as “learning by doing”, a qualitative side of the human capital.

Our economy, closely connected to the other economies of the European Union member states implements monetarist policy tools meant to maintain positive growing rates, which are a necessity for the economic “catching up” process.

Romania does its best to meet the requirements of entering the euro zone, and in this perspective, trust as a growth and sustainable development factor will be enhanced: for this year, estimations are that the economy will grow with around 2.1 % (6), while the rebalance process is underway.

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