COMPETITION AND STABILITY

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Abstract: *Referring to the flattening of the macroeconomic fluctuation, and dissipation of imbalances of economy, the economic stability is seen as the perfect environment for economic growth and development. Still, the post-war evolution of the contemporary economies had shown that growth can happen even when we face serious dis-equilibria, such as unemployment, inflation, and even the budgetary deficit. Moreover, springing from the Keynesian incitation to raising expenses, the all governments act as if the budgetary deficit is the normal situation for the markets to survive. Is competition fueled by the chronic unbalances?*

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INTRODUCTION

The old and renewed dilemma "competition versus steady sate" has particular features under the present conditions, on the European Union construction's demanding and limitations: a recent presentation of the population restriction in its evolution, authorized by EUROSTAT (4) on the basis of October 2012 data, shows that we are in full transition towards an older population structure, since the average age in EU was of 35.4 years in 1991, it became of 41.2 years in 2011, and is estimated of 47.6 years by 2060.

Apart from this population particularity of the EU, there are global issues which put pressure on politicians, linked to the scarcity of some traditional resources and their price, situation that is flattening the growth index in most of the countries, creates prices unbalances and inflation and jeopardizes the national budgets of the smallest or exposed countries.

Ever since the ascension of capitalism, the market relations were closely analyzed by scientists and economists, in order to find an ideal formula of securing profits by a fair competition, and meanwhile to promote stability, as an ideal environment for more numerously business-man and for fulfill the satisfaction of more and more consumers.

The doctrinaire-evolving visions about the competitive and steady state economy were idealistic, presenting an overall harmony and prosperity, mainly for entrepreneurs, as if it were enough to wish to become a business agent, and the profits would come to you by themselves, under the wise allocation mechanisms, belonging to the private, of later, to public forces.

But fair competition within a steady state environment will be for ever seen by public as a warranty for prosperity and an optimistic perspective.

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DEBATE

European Union has committed its policies towards the convergence model of long lasting development, a model where member states should compose the elements of a larger and more powerful socio-economical system and also benefit from a higher efficiency originating from the common interests and facilitated cooperation.

It is not only the disasters of the twentieth century which fueled this community ideal but in economic theory, the large markets projects have been imagined by most of the brilliant economists who enlightened the economic science.

The optimal allocation and overall equilibrium were envisaged by some prominent economists, among whom, Walras in one of the most known, with his approach on the balanced and steady ideal state of all markets.

His opera, "Elements of Pure Economics or the Theory of Social Wealth", 1874, 1877, (5) explains the advantages of the competitive equilibrium on interconnected markets, by achieving a steady state situation.

The flexibility of market though, was in his mind related to a private administrator who has to conduct the groping process, that is to vary the prices and re-allocates the quantities of goods, until the final steady state situation.

The steady equilibrium corresponds to such a distribution of goods, at equilibrium prices, which fulfils the demanders' needs: at such a moment, the profits are enough for all the economic agents to re-take production, and the complete utilization of the production factors is installed.

When stationary general equilibrium is destroyed, following perfect contestant equilibrium comes instead, with more or less market players.

The current global crisis and the lasting turbulences turn the decedents' thinking back to the classic principle of competition equilibrium: the walrasian groping process was the solution for stability and growth.

But who is nowadays "le commissaire priseur" in Europe?

Animated by the temptation of a steady state and overall balanced market, Europeans have set up the construction of the single market.

Prudence and the recent sovereign debt crisis, that imposed a tighter control of the financial discipline inside EU, remind us the pertinent observation of great John Maynard Keynes, who, in his "The Economic Consequences of Peace", 1920, after a profound analysis of the European economy and of the economic reality of his time, considered that the European countries "flourished together, they have rocked together in a war, which we, in spite of our enormous contributions and sacrifices (like though in a less degree than America), economically stood outside, and they may fall together… If the European Civil War is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds." (3)

The interconnected EU single market is indeed, dominated not only by competition relations, but also by "contagious" financial unbalances, and this situation remains critical, in spite of insistent and somehow excessive regulations concerning the financial and fiscal common policy, especially for the euro-zone area member-states.

In a recent work carried out under the International Monetary Fund auspices, "Successful Austerity in the United States, Europe and Japan 2012", the authors, Nicoletta Batini, Giovanni Callegari and Giovanni Melina express their opinion about the importance of more financial consolidation for all the countries, paying the price of cutting expenses, lowering incomes and consequently this leaving less financial resources for growth: "the sovereign debt increases have been most pronounced in only a few euro zone countries…. they have become a perceived problem for the area as a whole because of the potentially severe contagion effects. Reducing the public debt ratio to more comfortable levels would require a large and sustained adjustment that could most likely weaken aggregate demand… On the other hand, consolidation cannot be postponed indefinitely.” (1)

As a short term solution for absorbing the falling demand and consumption reduction, other incitation for growth - as most desirable evolution - could be found, but specialists consider in the European case that excessive regulation becomes unattractive for external business, in spite of a high degree of security for their investments.

In the European Competitiveness Report per 2012, European Commission release an accurate and precise analyze of the European economy under the perspective of the global market, considering that European Union remains a major player in the global foreign investment as a strategic vector of the market competition (6).

Nevertheless, European share of the world inward foreign direct investments declined from 45% in 2001, to 23% in 2010, while outward foreign direct investments had the same trend: this trend shows again the imperative of a raising attractiveness to investors, by all means, by skilled labor, capital and natural resources opportunities.

In the same Competitiveness Report per 2012, a synthetic presentation of the recession per country shows the evolution of the real GDP during 2007 and 2011, marking the GDP decrease per quarters: Romania entered in recession in the third quarter of 2008, until the third quarter of 2010, being vulnerable to the recession contagion transmitted by the external sector (6).

Romania was among the first countries from the EU forced to apply the austerity measures (the first decline in GDP was recorded in Q3/2008, after a permanent and continuous growth, since 2000), but the cutting expenses which were recommended in order to avoid a deeper poverty in the future entailed even more poverty, while active population migrated even more for finding jobs, in other countries.

The “austerity shock” for national market meant a violent shrinking, in all its’ segments, increasing the numbers of poor, as if the public interests decedents have betrayed the voters, while the private interests prevailed.

The public - private partnership in Romania is maintained by a subsidy policy, for agriculture, industries and services, but for social sectors as well.

The more profound liberalization of the European market is not enough for leading to development and convergence with the average level of EU, so that financial subventions, under direct or indirect form, became in the conjuncture of fluctuating macroeconomic results genuine drivers for the economic activities.

European projects, injecting subsidies in all activities are used as interventionist levers, aiming to balance the market by the price mechanism, and stimulate some economic areas (production, for instance), simultaneously with the contraction of others (home consumption).

But here, we should not forget the paradoxical effect of the subvention: it takes money from everybody in order to control the prices, but the overall effect is of an indirect increasing of the homeland price paid by the consumer.

Interesting would be an estimation of the European single market inflation due to the subventions: the subvention role is benefic only up to some limits, in time, space and according to the national or regional economic potential.

Romania entered in European Union in 2007, but the real membership will be achieved when entering the euro-zone, in 2015.

By that time, a series of optimistic objectives will be enhanced: a more rapid, sustainable growth and development, a deeper social cohesion, a raised employment based on advancement in education, increased innovation, research and development expenditures, lowering the unemployment, and others.

Meeting the euro-zone criteria and most of the targets mentioned above will prove the competitiveness of the national economy, its credibility and macroeconomic stability, in line with the Maastricht financial performances criteria, included in Article 121 (1) of the Treaty (9).

For Romania, the most pressing criterion remains inflation, because of the discrepancy of the targeted inflation rate, and the real one: this year, the target is of 2.5%, while the current inflation rate is of 5.25%, according to the National Bank of Romania (7).

Specialists' opinion remarks that there is a marketing embarrassment in the fact that the monetary policy of Romania is not entirely harmonized with the European one, namely the higher credit cost in our country entails a local rise in price for most of the activities, and is putting pressure on inflation and its consequences.

The fact is that a higher interest rate and a higher credit cost cannot absorb the economic fluctuations, on the contrary, and do not feed a real and structural harmonization with the European stability model.

Promoting economic stability together with a fair competitiveness could guide us all to avoid economic and financial crisis, or flattening the great swings of the macroeconomic results.

While the national resources diminish (population has diminished since 1989), the growth index becomes even more difficult to obtain.

Stability strategy, owing the benefits we showed, should make the decedents take the wisest choice about the dilemma "to what extend" the sustainable growth, because, as Herman Daly revealed in its "Steady State Economics", 1977: "the question is whether further growth in GNP will in fact make us richer. It may well make us poorer. How do we know that it will not, since we do not bother to measure the costs and even count many real costs as benefits? These critics simply assume that a rising per-capita GNP is making us better off, "If marginal benefits of physical growth decline while marginal costs rise (as elementary economic theory would indicate), there will be an intersection beyond which further growth is uneconomic. The richer the society (the more it has grown in the past), the more likely it is that marginal benefits are below marginal costs and that further growth is uneconomic." (2)

The post-war evolution of the contemporary economies had shown that growth can happen even when we face serious disequilibria, such as unemployment, inflation, and even the budgetary deficit.

Moreover, springing from the Keynesian incitation to raising expenses, the all governments act as if the budgetary deficit is the normal situation for the markets to survive.

Is competition fueled by the chronic unbalances?

Our opinion is that for sure there must be a limit to what extends the economic growing process, and even the sustainable growth could be compatible to stability and long term market balance: the further uneconomic growth already lives with us, even if mankind conquered the solar system in its greed for new resources and new expanding possibilities.

CONCLUSIONS

Europe is changing because its people do so.

Speaking of the main resource, the human capital, apart from the higher education all citizens benefit, the demographic structure is objectively presented by the convergence scenario of "EUROPOP2010", in line with which, European people will be of 525 million by 2035, of 526 million around 2040, and of 517 million by 2060.

During this time frame, if the retreat age conditions will remain the same as today, the population of working age is expected to decline steadily, while older persons will raise the share from the European Union population, and those aged 65 years or over will account for 29.5 % of the EU-27's population by 2060 (in expansion, from only 17.5 % in 2011) (4).

Being aware of this realistic statistics, our remark is that stability, in the sense that "rien ne bouge", could have negative effects especially on the budgets of social and health insurance pensions.

This happens when the scarcity of the budgetary resources determines national government's decisions of cutting costs in the social sectors, a situation which seems to be in view of Romanian politicians and in view of other short term decedents as well.

The question is weather the public interest is concerning the public or not: if the business belongs to capitalists, in the market economies, the social (unprofitable) activities cannot be left to the private charity of Europe.

The social objectives in EU are supported primarily by active measures such as financing the small business, in all basic sector of industries (farming, small enterprises, and so on), and this makes even more imperative for the local leaders to commit themselves for sustaining all the vitals spheres of the society.

No doubt, national subventions were generally welcomed, especially those for houses constructions and agricultural ones, but the pensions system in Romania sill promotes huge discrepancies among contributors and the health-care system is far from its beneficiaries' expectations, especially because the average national incomes are not able to pay for a private alternative.

Such domains as healthcare care and pension are vital for an economy with diminishing population and the state intervention in supporting their expenses could be of great help to rebalance the economic growth disturbances, by maintaining a vigorous population, in spite of the larger aging process.

The fragility of the current macroeconomic equilibrium imposes a maximum prudence in administrating the budgetary resources, and this calls for mix policies of competitiveness and stability: in accordance with this, the National Bank of Romania will adopt a stationary inflation target, of 2.5%, ± 1% (7).

Some major issues of Romania on the road of real convergence with the EU member states are common to most of those countries: the need for wise structural changes, enhancing the productivity, re-industrialization of the economy on the basis of the most efficient choices. These strategic goals are very competent analyzed in the "European Competitiveness Report per 2013", concluding that the business will have to pay attention and finance those activities concerning a deeper specialization, the so called niche industries, as well as increase the potential of the scientifically and edge technology achievements (8).

Our opinion goes for improving the legislation for the financial state intervention in the core and vital activities: this will increase the trust of the citizens in the homeland governors and will bring sustainable, long term favorable effects on stabilizing labor and goods national markets, without jeopardizing the competitive European single market.

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