

# ECONOMICS - A SCIENCE FOR SOCIAL ISSUES

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***Abstract:** The fiscal consolidation shocks in Romania lead the economy to an expected result of the confrontation between expenditures and raised taxes: the budgetary deficit decreased from 4.3% of GDP per 2011, to 2.4% of GDP in 2012. This macroeconomic effect of the policies targeting the recession shows a rapid reducing of national debt in the GDP ratio, and it is a step forward meeting the criteria for entering the Euro-zone. Meanwhile, austerity measures brought more poverty and social frustration worldwide, EU included, in the context of a “plutonomy” economy, dominated by USA, China, and Great Britain. Given such restrictions for the political decedents, in a relatively small country as Romania, we analyze the consequences of the governors’ options, entailing profitable and social aspects.*

***Key words:** deficits, “plutonomy”, social issues.*

***JEL classification:** E00, I00.*

## INTRODUCTION

Romania has made huge progress in meeting the criteria for entering the euro-zone, as many economists, specialists and politicians are sure about.

In a recent report of the Romanian Academic Society, 2012, (8), the Maastricht requirements for the parameters of the statistical index of financial performances which must be fulfilled by each country when entering the euro-zone show an important progress, for our country, compared to previous timeframe, in spite of the recent economic crisis and recessions: the budgetary deficit and the public debt are already convergent with the Maastricht requirements, remaining the financial criteria of inflation rate and nominal long term interest rate, which are on a convergence trend, but not fulfilled.

This objective, of joining the euro space, and consequently obtaining a more consolidated status as a member state of the European Union, is expected to feed the growth rate of our country, on the sustainability ground and on firm legislative basis.

The acceleration of the real convergence process of Romania with the average level of development of the European Union is a logical follow up of the cutting down the transactions costs, which put pressure on the Romanian merchandise, once it enters the markets of other states; also, diminishing costs in any way, this way included, determines the raising of the productivity and the profits.

Moreover, the elimination of the transactions costs will release an important amount of resources currently engaged in covering the currency exchange activities towards more efficient activities, originating in the permanent adaptation to the flexibility of the single European market.

Under the pressure of competition and recent financial and economic crisis, most of the countries implemented austerity measures, but this economic policy option brought more poverty and social frustration. Given this restriction, of political response to the recent crisis worldwide, Romania continues its tremendous efforts towards a safer and more sustainable development and well-being aiming to enter the euro-zone.

Prognosis foresees an optimistic scenario of having for 2013 a higher GDP than in 2012, according to the latest economic projections released by authorized institutions, such as National Bank of Romania (4), a better business environment in the country and all its regions is underway.

The paper reveals some recent aspects of the internal socio-economic equilibrium put to work by the governors, in relation with the European convergence aim and the attractiveness a country should owe in order to gain the interest of foreign rich investors.

### **DEBATE**

The attractiveness of a profitable environment, with raising economic results, and positive growing rate was a subject of debate in economics since this science appeared. The essence of this debate is in fact the measurement of the true profits, if we were in the position to compare the short term profit of the entrepreneurs with the long term gains of the society we belong.

One of the most lectured and cited economists, Alfred Marshall, a prominent defender of the free enterprising, drew our attention upon the Malthusian dilemma “man versus nature” in his evergreen *Principles of Economics* (1890, 1920): “in a sense there are only two agents of production, nature and man.

Capital and organization are the result of the work of man aided by nature, and directed by his power of forecasting the future and his willingness to make provision for it. If the character and powers of nature and of man be given, the growth of wealth and knowledge and organization follow from them as effect from cause. But on the other hand man is himself largely formed by his surroundings, in which nature plays a great part: and thus from every point of view man is the centre of the problem of production as well as that of consumption; and also of that further problem of the relations between the two, which goes by the twofold name of Distribution and Exchange” (6).

This clear explanation of the economic motion gives the orthodox interpretation of the general capitalist effort of producing incomes, profits and growth practically removing a part of the natural assets and transforming them into merchandise, organizing and administrating a production-distribution-allocation and consumption system which is about to exhaust some of the basic resources that generated it.

The capitalist entrepreneurship is the mechanism able to fulfill the consumers’ needs but, as increasing scientifically alerts warn us that there is a possibility that even the usage of more and more substitutes for the decreasing resources to have an end; while the world population is rising every year, the emptying out of non-renewable natural factors gets higher.

Inside the contemporary global society, some economic issues have turned into social key ones, namely those regarding the sustainability concept.

Thus, production sustainability, consumption sustainability, development sustainability, environmental sustainability, all point to a larger social sustainability, as a core connection among past, present and future mankind.

Beneficiating of the legislative support of the human rights, some general activities are subject to a sustainable change: increasing the quality of life in spite of the natural resources depletion, waste recycling and eliminating pollution, and achieving the intergenerational equity and equilibrium.

Having an important role in economy, the distribution and exchange have been closely studied and correlated with the development and progress; a recent evaluation of the wealth distribution, presented by “The Wealth Report – 2012 A GLOBAL PERSPECTIVE ON PRIME PROPERTY AND WEALTH” (5) indicates a stronger position and influence on markets of the so called “plutonomy”, or “plutocracy” which is a minority of people, composed by the richest of the world.

The phenomenon of accumulating wealth in less and less hands, generated a whole literature, which could not change, but continuously enhanced the trust that the fortune of the richest 1% elites is growing faster than the other remaining part, that is dispersed to the most of the global population.

Also, in times of crisis, the old believes that people are conducted by the free will of fewer rich persons, who could relieve their poverty and provide job for everybody trends to re-born.

The study written by Knight Frank, 2012, (5), retakes some of its conclusions of the previous 2007 Wealth Report, stating that many private investors decide upon their option of spending according to safety, efficiency, but also social criteria, such as level of education and healthcare systems.

Observing the latest statistics of education and healthcare, the author concludes that the UK investments in education raise the competitiveness of this country and reach people choose England to live in for this, and on the other hand, Germany highly invested in the healthcare system, which made this country attractive for more and more wealthy persons from worldwide; education investments for UK, and healthcare homeland investments for Germany are comparative advantages for these countries in the competition for attracting the big spenders of the global current society.

His discovered trend of the investments, however, could have a moving trajectory from western to eastern world territories, called emerging world.

This study connects the national or regional competitive advantage with the subjective options of the richest economic agents, called “plutonomy” or “plutocracy”, sometimes with a pejorative connotation; the observations lead to the conclusion that the global economic democracy remains dominated by wealthy classes, in spite of some changes.

Since USA became after the second world war the leading economy of the world and its performances maintain this country in the top of the global producers, it became the standard example of “plutonomical” economy: the leading characteristics of this state are connected to its performances in terms of GDP, in contrast with its financial-crises related unbalances of unemployment, inflation, national debt, and interest rates.

The deepening globalization process tends to create a hierarchy of relationships among national entities and in this process, where market principles dominate upon the other spheres of the society, more dependency connections are developed.

If global economy continues to grow feeding in the same time its contradictory elements, we could expect that the society's most rich persons or firms will maintain or influence the economic growth in different areas, according to their interests: when most of the rich were Americans, investments brought more profit to USA, and when the economic ascension of China, Japan, or India form a wealthy social upper class located in middle-east and Asia, we could expect that most of the investments were transferred to orient.

In this line, we cite the opinion of Bernard Fornas, (Cartier CEO): “the shift of economic power to Asia is ...one of the big geopolitical questions...” (5).

Romania is subject to this dependency because of its membership to European Union, but inside its borders, the wealthiest people made their fortunes in close connection with the state. Thus, the local “plutonomy” or “plutocracy” is an economic result powered and consumed by the small leading local minority.

On the other hand, knowing the scarcity of production factors, and especially of financial capital, we consider that Romania depends on foreign investments, and it does political and legislative efforts to attract foreign money and investments.

The capitalist market competition becomes every day sharper. This occurs because the evolution of the market elements triggers antagonist forces on the global

market: while the human capital rises, the natural capital lowers and the financial capital sticks to the best returns from the whole world, not from a particular area.

Being aware of this reality, our opinion is that the best comparative advantage of the Romania remains, the commitment of Romanian labor, its flexibility, high level of education and openness to novelties, and this is why this features of the human capital should be promoted by political actions.

Social issues and market profitability are the competitive advantages of the European Union and this is why we believe that, far from converting our energy in useless or exaggerated investments, policy must fuel a balance between the economy and its outputs on one hand, and the social features of the quality of life.

Currently, upon the domestic market equilibrium, external factors such as financial flows or world prices for diverse raw materials, basic foods, energy and oil act sometimes like genuine shocks, unbalancing the national budget and the small business.

Theoretical debates argue if the state should reduce or limit the power of corporations, assuming that doing so, more small business could take over their activities and thus lowering the prices; such a hypothetical point of view largely belongs to an idealistic vision, as far as EU is concerned, because the corporatist market behavior is influenced by the small business, which are and will be largely supported, granted and even financed from common financial sources.

Moreover, corporations are concerned about long term strategies of staying on markets, fact that modernized their approach versus their clients; they claim to behave friendly with the consumers and with the environment, committed and responsible with the sustainable objectives of society.

For these reasons, our opinion is that corporatist activity is able to become an element of stability and of social security, a tool for bringing comfort for citizens and sustainability for all the activities, as long as the competitive environment is preserved and the political administration of the public interest is ruling in a reliable manner.

Apart from associating “plutonomy” with corporatist attitude, the economic study and preoccupations is to watch and see the true of the economic reality.

In the context of deepening the economic world crisis, of energetic, raw materials and even food scarcity, of maintaining the gap between rich and poor, social issues raise the true sustainability problem as a part of the solution of these problems.

In a 2012 Report of the United Nations Secretary-General’s High-Level Panel on Global Sustainability, entitled “Resilient People, Resilient Planet: A Future Worth Choosing”, New York, United Nations, (7), a global warning is launched about the repeated failure of implementing genuine committed measures which enable a drastic answer to all types of pollution and waists.

This report traced a series of measures for guiding the economy, such as incorporating social and environmental costs in regulating and pricing the goods and services, diminish the market failures, finding new sources for financing the sustainable development, and creating a Sustainable Development Index, to show the sustainable growth and development.

Stepping forward synthesizing the sustainable development, scientists have set up the “Inclusive Wealth Report 2012 Measuring progress toward sustainability” (3).

This interesting and elaborated work was designed under the Cambridge University auspices, becoming a meditation subject not only for decedents, professionals, but for everybody (2).

The authors recommend that “countries should mainstream the Inclusive Wealth Index”, as a step forward balancing the natural capital with the mankind expansion.

Meanwhile, the statistical approach could help decision makers by constructing another indicator, named the “sustainability gap” that indicates the degree of consumption of the natural capital, either in the past or present; this can show in

physical terms how much the economic activity overflows unsustainable impacts in the environment.

Such reports aim to inform the resources owners about the direction of best usage of the investments, in terms of profits, according to the current legislation of limiting the pollution.

Moreover, by launching the “virtual sustainability”, the report drives our attention upon the possibility of a restricted consumption: this could happen because the sustainable trade, consumption and production are essential parts of the sustainable development system.

## **CONCLUSION**

The inter-temporal equilibrium of the market requires a trade among the past, present and future generations, as participants at the market mechanism.

Admitting that an individual human being consumes not only for himself, but for his family and future inhabiting, the consumer behavior cannot be separated by evolution, and market relations include consumption for the future too.

The sustainable consumption is a part of the sustainable development and growth and this is why the consumers (private or not private) should be helped to make appropriate choices when spending money, in order to better harmonize the natural capital with the human needs, protecting the long term quality of life, for everybody.

The true achievement of sustainable development must focus on human well-being, a concept that includes a reasonable balance between today and tomorrow for all humanity.

Romanian economy is influenced by the very wealthy individuals or entities, from homeland and from abroad, and for this reason the trade between the state and the business ought to create an attractive environment for those entrepreneurs who target not only profits, but also social issues, employment, sustainability and long term strategies.

The fiscal consolidation policy in Romania was realistic because it brought positive results: the budgetary deficit was calculated as a decrease from 4.3% of GDP per 2011, to 2.4% of GDP in 2012 (having a nominal value of 14.8 billion lei) (1).

This macroeconomic effect of the policies targeting the recession shows a rapid reducing of national debt in the GDP ratio, and it is a step forward meeting the Maastricht criteria for entering the Euro-zone.

Including the Inclusive Wealth Index in our national sustainable strategy could be a good option able to balance the current profitability with the medium and long term aims. Such a decision must be co-ordinated with a similar one for all the European and world-wide countries, in order to bring some benefit, by directing the use of assets over the time, but this will not be enough: measures should entail this new standard, in order to obtain the “true” sustainability.

Among them, the most important remains in our opinion the lasting and most dispersed employment and to this objective all the possible political, economic and social tools are to focus.

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