

REBIRTH OF NATIVE PRODUCTION – MAIN PROBLEM OF ROMANIA SINCE 2009

Dionysius FOTA¹, Angelica BĂCESCU-CĂRBUNARU²

Rezumat: Pornind de la atribuțiile statului într-o economie de piață, se prezintă legătura dintre cerere, producție, venituri și șomaj. După ce se argumentează necesitatea interzicerii importurilor plătite din buget și favorizarea reluării producției autohtone pentru crearea de noi locuri de muncă și oprirea importurilor pe datorie, se arată măsurile ce trebuie luate pentru restituirea de către firme a datoriilor către străinătate. În final sunt recomandate atât politicile fiscale care să faciliteze refacerea industriei autohtone, cât și politicile de creștere a producției autohtone.

Abstract: The article presents the market and state tasks in a market economy; link between demand, production income and unemployment; some aspects on forbidding imports paid from the budget (encourage to retake the native production to create new jobs) and stopping imports on debt; assuring to recover from private firms the debts abroad; fiscal policies which should facilitate to redress native industry and policy to stimulate the increase in native production.

Keywords: Imports on debt, tax system, state orders, external financing, private monopolies

Clasificare JEL: E23, E24, E62, F13, J23

1. Introduction.

Market and state attributions in a market economy

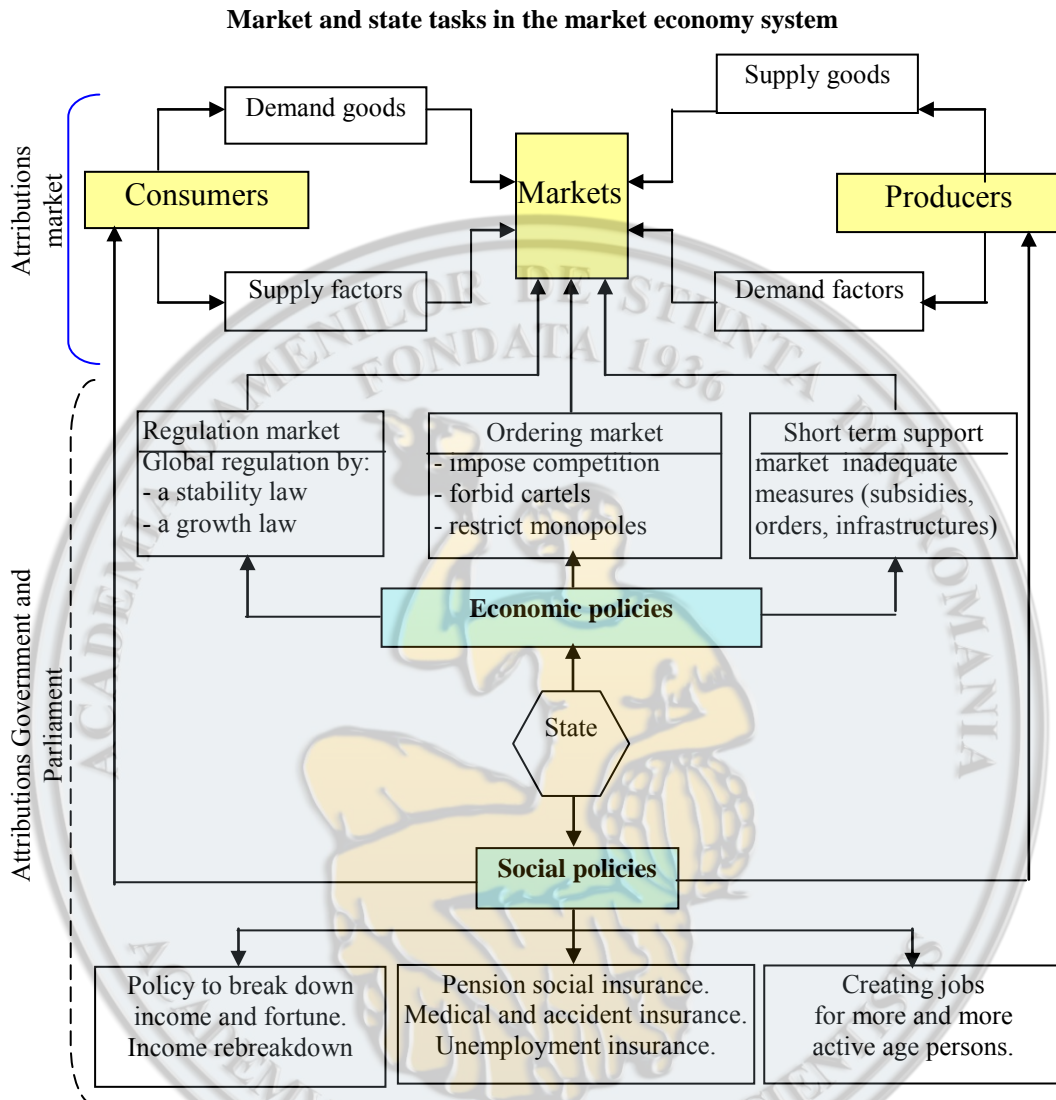
In economically less developed and transition countries from planned economy to market economy (such as Romania at end of 1989, when production capacities existent that date, represented less than 10% necessary to achieve a GDP of average GDP in EU member states that period), **rehabilitation of national economy and retaking its development** was especially determined by lower production potential of national economy, through: deindustrialization and change of agrarian sector into a subsistence agriculture, as a result of implementing the Law no. 18/1991.

Under these conditions, neither state nor market could fulfil their tasks within a market economy (see scheme no. 1).

¹Principal Researcher, Ph.D. Economist, Germany.

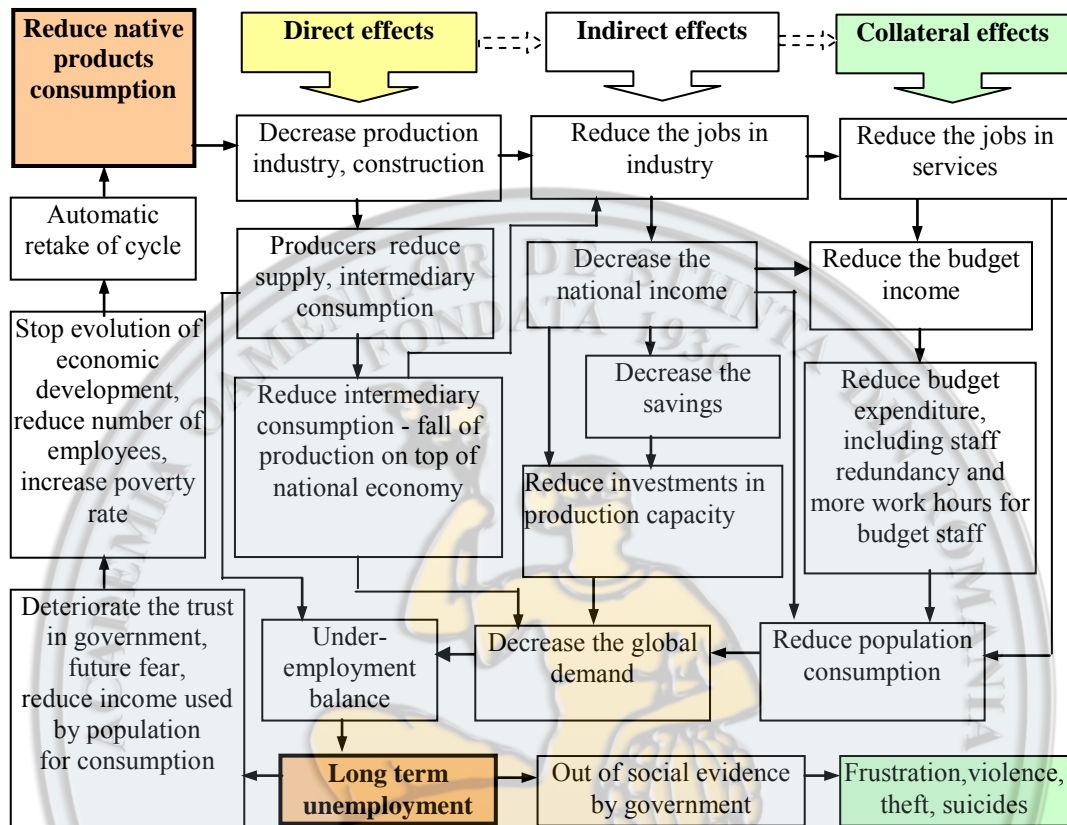
²Professor Ph.D., Academy of Economic Studies – Bucharest, Member of the Academy of Romanian Scientists, e-mail: mihaelacba@yahoo.com

Scheme no. 1.



2. Relation between demand, production, income and unemployment

Any measure to reduce the consumption of native products determined at the same time with production fall a lower number of jobs in the related sectors. For social order, any diminish by means of staff redundancy in market productive sectors of national economy directly determined a fall of employees' number and of national income. Labour force redundancy also meant a change for some inhabitants of the country; from income producers to budget consumers, this process creating for the state some obligations to be solved only if it has enough fiscal and non-fiscal income (see scheme no. 2).

Scheme no.2.**Link between consumption demand, production of goods, income and unemployment****3. Embargo of imports paid from the budget and bias of native production retake to create new jobs and stop the credit imports**

On 31.12.2007, number of employees was only 4.717.200 persons, representing about half for a population of 21.5 million inhabitants.

Implementing this first measure, pursues to end foreign trade deficits and their substitution with native products and therefore, to create jobs for active labour force and redundant persons in agriculture.

Since 1997, industry contribution in GDP started for be lower each year. Exceeds were obtained by rises of prices and tariffs. Out of industry weight of 35.5% in GDP, calculated in current prices in 1997, rises of prices represented 24.5%, so value added of this sector was only 13.01% of GDP. Out of value added in nominal prices this year (252.925.7 billion lei), inflation represented 44.4% as against the previous year.

According to NBR issued data in 2000 yearly report, industrial production

decreased as against the previous years, by -23.7% in 1990, by -22.8% in 1991, by -21.9% in 1992, increased a little during 1993-1996, but decreased again by -7.2% in 1997, by -13.8% in 1998, by -7.9% in 1999, then started to grow again in 2000. The weight of industrial production in the first four years since 1989 decreased to 31.6% of 1989 production, increased in the last four years to 51.8%, then in the next two governments it decreased to 23% and then increased to 31.0% of 1989 production 1989! It means that it was lower than one third obtained in 1989! Because all these calculations do not take into account the rises of prices, holding an important part of those 31.0% at the end of 2000, this situation should think it over for several governments in the past and in the future. We like it or not, this is the situation now!

After the elections of 30.11.2008, we needed a long term strategy of production development distributed by means of the market.

Redressing the industrial potential of national economy needs more investments in production capacities and therefore in credit. This action cannot be done but gradually and wrong development or crises are not excluded, as well as protests and press campaigns against development.

Under the world crisis conditions in 2008, speculative economy and no limit globalization, which destroyed the competition and reduced or hampered function the market economy, the only possible investor in the future industry of Romania during 2008-2012 remained the state.

The necessary credit should be created by the national bank system (following the model of Eastern Asian countries) by means of the National Bank of Romania and the Savings Bank getting rid of privatization robbery, as well as small banks in which majority capital is held by natives. No Trade Bank belonging to foreign residents will support with good intentions to redress the industry, because this redress means less imports of goods delivered to Romania by their countries! External loans should not be done but for the purpose regarding 100% the industry development for the production volume of the sixties.

Government and parliament should forbid using budgetary funds to purchase from abroad industrial products which can be manufactured or produced in the country, such as: tractors, buses, tramways, trolley buses, train engines, freight cars, subway cars, passenger cars, prefabs, cement, glass industry, etc.

In order that mayors of localities did not use imports bringing commissions or rewards, they should understand to depend on productive activity of economic units from those localities.

Measures should be taken to put into function the exploitation of ore deposits (gold, copper, lead etc), coal and bituminous schist's with alumina as component

of burning ash (Anina, Doman), because after exceeding the threshold of 60 USD crude oil barrel, their exploitation is profitable, without taking into calculation the resulted alumina quantity.

For reasonable use of resources, it is necessary that government creates a special ministry for this purpose, to deal with oil, natural gas, coal and ore deposits production as well as electric energy production. All these resources consume Romanian currency and not USD or euro for which Romania should export goods to get them. How can be conquered some of the market in former URSS countries or Arabian, Asian or African countries, if not with industrial products cheaper than those of developed countries. Production quality should be taken into account and pursued by State Property Administration and specialized ministries. The law should provide automatic penalty of managers and members of administration boards, when there are claims related to the production quality.

Destroy the native industry and create unprofitable productive units is caused by higher costs and introduction (by own taste or at IMF request and other state organizations) of additional taxes (excise duties, VAT, health insurance contribution) and penalties for their not pay! During all these years, in Romania no effort was done to analyze if government surplus can be included or not in the production costs.

To improve some similar methods in the future, some regulations are necessary to be implemented.

To calculate the production costs and to carry out development projects of all economic units which have no own designing, few central design institutes should be created as soon as possible by fields, as long as they could benefit of retired or unemployed professional experience.

In the market economy, where competition plays main part of market ordering, Court of Accounts should supervise permanently that producers should not become monopolist; impose the consumers the prices including unjustified costs. It means that private sector should not fill out costs with no limit salaries and non-economical expenditure. Court of Accounts should have unlimited access to the state and private units! Thus, the country cannot get rid of the white collar economic criminality and corruption label!

In order to prevent any negative reactions of western firms exporting to Romania to be against these measures, they should be invited directly and individually to build production capacities on Romanian territory, granting them some facilities such as non taxing the profit invested in productive capacities in industrial field and free of VAT the imported equipment. There is already a good experience in this matter.

4. Assure to return the duties abroad by private firms

The repay the debts abroad to private firms can be assured by several measures, presented below.

a) Strict inclusion of imports in total sum of estimates obtained by exports. No institution or public authority is allowed to do imports directly or through a private institution, only by a firm belonging to the ministry of foreign trade, whose staff is paid from the budget. Imports of state firms (army, transport etc) should have the government approval, which at its turn, needs an institution which checks and inform the government if that import is accurate and convenient from the viewpoint of quality, guarantee period service and price.

b) Inventory of importers with external debts and elaboration together with tem of a reimbursement plan of credits and interests payment, including a supervision that meanwhile did not bankrupt and shut down the firms on whose behalf they borrowed money. Pay attention this way of business exit, used at great extent in 2000! Setting up for all guilty people an embargo on fortune and some severe penalty discouraging fraud and evasion, plus deprivation of electoral rights and exercise any leading function or having a firm in the next 8-10 years after the sanction execution.

In order to end with suspicions, accusations or defamations regarding unpaid credits to BANCOREX and Agricultural Bank, Government, National Bank or Ministry of Finances should publish the name of debtors in two separate lists. The first one with credits before 31.12.1996 and the second one with credits after 01.02.1997, all of them with mature deadlines to pay debts and the amount left to be returned. The law which commits the authorities to publish these lists should stipulate a sanction with jail for each of persons taken out of the list, stipulating the penalty with jail for each person whose name was protected not being published.

The proposals of debt pardon or amnesty do not solve the issue, because the population will draw the conclusion that in fact, that law was adopted to protect the profiteers.

5. Fiscal policies facilitating the recovery of native industry

We refer to the following fiscal policies to facilitate the native industry redressing:

- create facilities to the investors, including not taxing the reinvested profit;
- forbid payments of commissions for political people, ministers and state employees;
- gradually renounce to the tax unique quota and after some time,

introduce progressive taxing in order that budget should have more possibilities to accumulate more income;

- taxing all income and earnings from bank, stock exchange and real estate speculations through a value added tax of 80% on price difference between selling and purchasing prices;

- taxing with 50% the price differences between purchasing and selling lands, buildings and production capacities, their purchase for public interest purpose and distribution of 90% of these sums, for the chapter of income from the yearly budget of town halls of the localities they are situated. Reduce this tax to 25% if the same lands, buildings, etc., are sold during 5-10 years;

- taxing a fortune and turnover. Create facilities, including by negative taxes, of small and very small firms, to be able to invest from own accumulations, as well as to be able to pay salaries and health insurance contributions in various special situations set up by the law (credit big interests, inflation, bank cut off, litigations caused by not paying some invoices by some clients, etc.);

- change the taxing system to get a fortune, introducing five tax systems:

- Taxing to acquire a fortune from relatives of zero degree until four degree, by direct inheritance from the owner.
- Taxing to acquire a fortune by delegation given by a heir or supposed heir.
- Taxing to acquire a fortune proving a property based on witnesses.
- Taxing to acquire a fortune purchasing the inheritance rights certifying the documents abroad.
- Taxing to acquire a fortune selling it in less than five years from since purchase;

- cancel the taxes required by state services in which employees are paid from state budget (town halls, police, revenue office, agencies, services, etc), to release documents, notes or proofs required by the inhabitants of the country, by other state bodies.

- introduce the obligation that any rise of salary should not be done for all salaries of growth average quota, but some differentiated quotas (the highest ones for minimum and lower salaries or zero for higher salaries than average per sector or field.

- person having employee quality in an economic unit, is employed or gives consultancy to another economic unit having the same activity profile or convergent interests, is considered to support a faithless competition and should

be punished with minimum two years of prison (compulsorily executed) plus pay of compensation. When employed, employees should sign a loyalty statement for the firm or institution employer and mention to be informed about the stipulations of such an article.

6. Employment policy

By weights of labour force distribution in Romania's national economy sectors at the beginning of the third millennium, it is noticed that Romania shows as an agrarian-industrial country, knowing that passage in the other two sectors of employed persons in agriculture, requires not only time but investments in productive capacities creating jobs!

Transfer in industry and services, during 1950-1989, for 51.47% of employed persons in agriculture, meant not only a growth of physical productivity in agriculture, but also by employing about 50% of these persons as employees in industry and services, meant a rise of money income of former farmers, which helped them to improve faster their living conditions and their families.

Arriving in the situation of 2002, when international statistics pointed out that labour force in agriculture of Romania reached 42.3% for a value added of 15% in GDP, Romania would have to create new jobs in industry and services for about 32-33% of labour force which leaves agrarian sector in order to increase its productivity and bring agriculture to international standards (see table no.1.)

Table no. 1

Evolution of employment in national economy of Romania during 1950-1989-2002

Sectors of national economy	1950		1965		1980		1989		2002	
	Thou. persons	%	Thou. persons	%	Thou. persons	%	Thou. persons	%	Thou. persons	%
0	1	2	3	4	5	6	7	8	9	10
Agriculture	6,207.7	74.1	5,476.3	56.6	3,048.1	29.6	3,012.3	27.5	3,523.2	42.3
Industry	1,000.7	12.0	1,862.9	19.2	3,678.8	35.7	4,169.0	38.1	2,182.2	26.2
Construction	186.3	2.2	609.3	6.3	857.4	8.3	766.7	7.0		
Transport and tele-communication	168.6	2.2	348.9	3.7	707.7	6.9	757.1	6.9	2,623.6	31.5
Other branches	775.3	9.3	1,367.6	14.2	2,016.5	19.5	2,240.6	20.5		
Total	8,338.6	100.0	9,665.0	100.0	10,308.5	100.0	10,945.7	100.0	8,329.0	100.0

Source: Romania Statistical Yearbook, 1990

Mass productions are not consumed by rich people but by the population of middle class, of which majority were employees!

“In all industrialized countries there is a firm commitment to the economy of goods and services consumption, as the first source meeting the people needs and the most visible measure of achievement at social plan. There is also the more urgent and visible need to gain owing to the production. In modern economy, it is enough strange, that production is now more important for jobs created, than for the provided services” (J.K. Galbraith, 1996).

Only due to unconsidering such rules, it was noticed that in December 2008 only 2259 thousand persons (10.5 % of population or 54.2% of persons who worked in 1989) worked in the industry of Romania, of which in manufacturing 1,247,900 people (5.8% of total population)!

This category of only 5.8% of the population represents labour force directly increasing the productivity of a national economy and not central and local government.

All these categories depend, from the viewpoint of salary possibilities, on the way industry fulfills its engine role in the development of national economies. It is necessary that all persons support this sector redressing and development so that this dependence should be favorable for them.

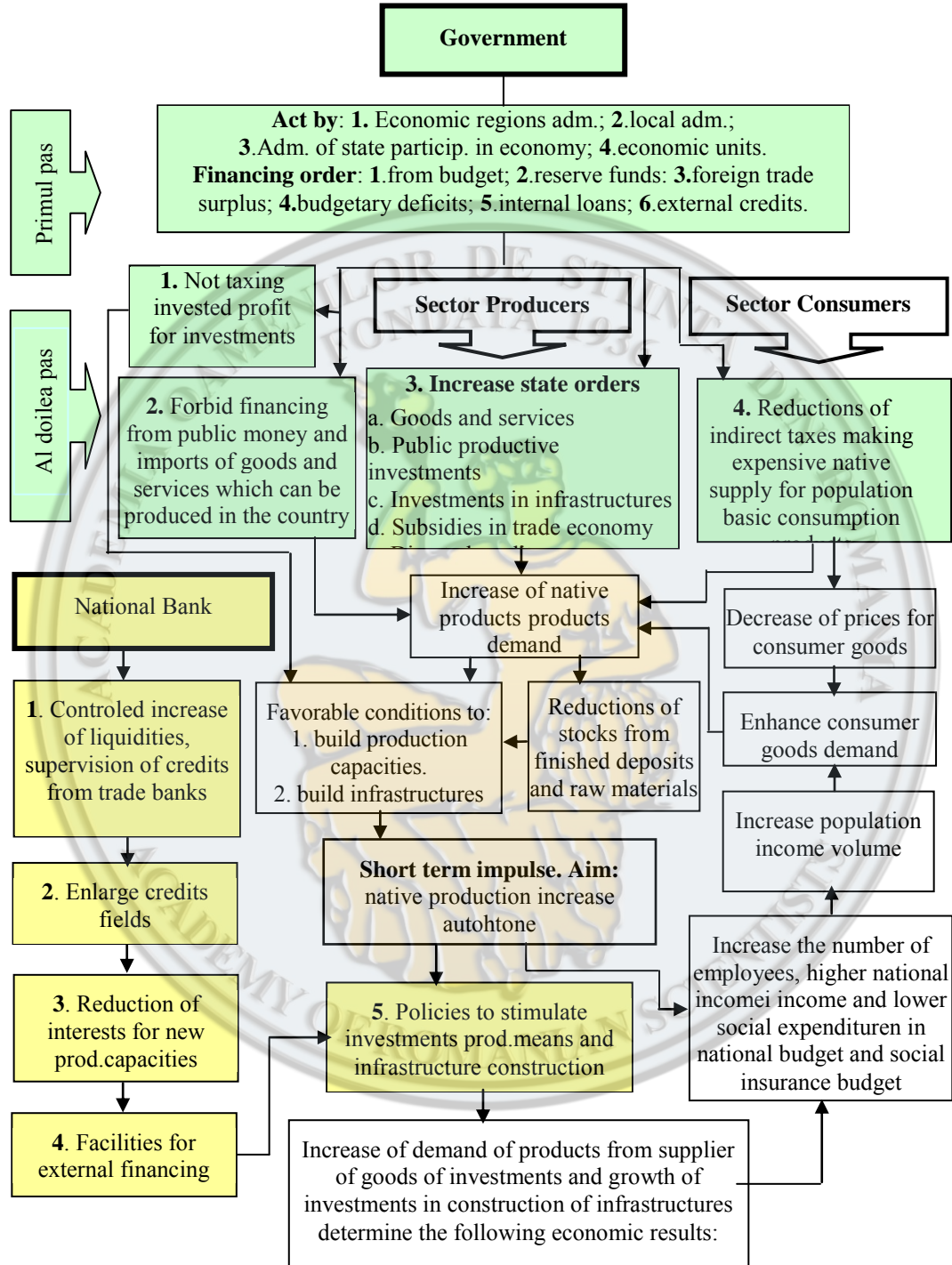
7. State short term policy to increase the native production

To stimulate the growth of native production, keeping the jobs and demand, it is necessary a short term state policy, which we present in the scheme no. 3.

In this scheme, it can be noticed which is their role in the development of state orders growth to increase native production, parallel to enlargement measures of credit fields and some facilities set up by the National Bank, with the increase in the number of employees and population income, finally leading to enhance the consumption demand of goods. Due to the big number of employees and consumers from army, police, education and health, public fields which cannot function without consumption, the state become not only organizer of economic competition in the national economy but also a provider of economic units support.




The partisans abrogating the state role in the economy, in fact pursue the implementation of one of the following purposes: 1. Cancel the state forecast by Marx for the last stage of mankind development; 2. To introduce private monopoles exploiting the consumers and cancel competition hindering them to impose their prices of monopole. Globalization should not mean to purchase competition and separate financial speculations from real production, as liberalization of prices for utilities (energy, oil, natural gas etc) should not be admitted, otherwise we reach to repeat the crises, as often happened during and after USA Ronald Reagan president leadership!

Scheme no. 3.



Short term state policy to stimulate the increase in native production of real GDP and creation and keeping the jobs.

Legend of scheme no. 3:

-  Government action field
-  National Bank action field
-  Adam Smith invisible hand action field (market)

Conclusions

(1)

Since 1989, instead of a rehabilitation and recovery of economic development, a fall of production potential took place through non-industrialization and change of agrarian sector into subsistence agriculture. This resulted in the fact that neither the state nor the market could fulfil their tasks.

(2)

Consequently, a fall of jobs number took place, number of employees in productive sectors, a change in some of the country's inhabitants from income producers to budget consumers, creating for the state several obligations it cannot solve but increasing fiscal and non-fiscal income.

(3)

In order to retrieve the situation, in the future, first of all it is necessary to redress the native industry based on reconditioned resources through adequate fiscal policies, to forbid imports on debt and their strict frame in the limit of estimates procured through exports, so that industry should fulfil its role of engine in the national economy development.

REFERENCES

- [1] Băcescu-Cărbunaru, A., *Macroeconomic statistics*, Ed. Universitară, București, 2009.
- [2] Fota, D., *Introduction in compared macroeconomy*, Ed. Universitara, București, 2008.
- [3] Băcescu, M., Băcescu-Cărbunaru, A., Dumitrescu, F., Condruz-Băcescu, M., *Macroeconomic policies of Romania's integration in the European Union*, Ed. Economică, București, 2008
- [4] Fota, D., *How to ruin an economy*, Ed. Universitară, București, 2007.
- [5] Băcescu-Cărbunaru, A., *Macroeconomic analysis*, Ed. Economică, București, 2002.

