

## **RADIOGRAPHY OF ROMANIA'S DISINDUSTRIALIZATION, BASIC CAUSE WHICH STARTED THE ACTUAL ECONOMIC CRISIS**

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**Abstract:** *The paper refers to endogenous causes of economic crisis in Romania and presents the evolution of GDP and GNP in constant prices since 1989, during the years 1988-2008. The author presents a methodology for calculating statistical influence on the economy of the process of industrialization of the national economy and to reduce domestic production in agricultural and industrial sectors, which remain for domestic consumption. Finally, it is presented a summary of the complex program of measures to stop the crisis and solutions to rehabilitate the national economy.*

**Keywords:** National economy, macroeconomics, recession, industrialization, economic crisis, the classification of people according to sources of income, budget, net export, deficit of foreign trade, real GDP, GDP in nominal prices, GDP in constant prices, GDP = GNP + / - net exports, domestic production, aims that justify the existence of a national economy.

Taking into account that most of politicians, parliamentarians, ministers and representatives of mass media means from Romania have stated for about 20 months that actual economic crisis taking place more and more severely and annoying in all the sectors of national economy, it would result in the influences of international financial crisis caused by US speculative economy, the measures announced by state executive power are presented similarly as famous massage applied to a wooden feet, while mass media means and some of trade union leaders search and agitate public opinion with all kinds of issues, which, with the whole importance and need to be solved, at present, do nothing but induce among population the well known feeling of fear and fright which determined to be burned alive during resurrection night of one of the thirties' parishioners and priest from the commune Costești - Argeș! Crisis which crosses Romania's national economy has its own endogenous causes, determined by destructive policies adopted by some of post-December governments in Romania, hunted by dilettantism, ignorance and naivety, as well as by hidden perversity of real stipulations of Washington Consensus whose managers became IMF and WTO and European Union too in the last 10 years.

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Such a crisis cannot be abolished by political decisions and adopting some measures coming from illiterate people belief that if they know about football they know about economy!

It is true that also seem to me very simple the measures which the government should take to remove the produced shortcomings, but for this I needed tens of experience years and about 20 years of study the macroeconomic principles and laws!

In comparison with a **recession** (defined as gradual cease of economic growth rate within national economy) whose first effect is to reduce demand and therefore, decrease in sales which determine lower production, higher unemployment and lower income of population households, **economic crisis** represents a sustainable damage of national economy development and takes place by a disturbance of economic activity which can reach paralysis of all state activity fields (social, political, scientific, cultural one) but especially productive activities from industrial and agrarian sector. The first negative effect of these causes, means not only to reduce jobs from economy, but also bankruptcy of productive enterprises and reduce until disappearance on the market of native goods and products needed to fundamental consumption of the country's inhabitants.

At their turn, dissolving jobs is not equivalent only to growth of unemployment rate, but also to a change of national income producers into budget consumers. Direct effect of this process meaning the reduce amounts which could be allocated in the state budget for investments, material expenditure and budgetary salaries, while indirect effect, is that which reduces volume of average income of population households. Or, both effects, contribute to domestic consumption fall, without which no national economy can function more than survive! Some of you –younger or older- speak about the need to come foreign investors! What they can do in Romania, where consumption of native products reduced or disappeared? For whom should produce foreign investors, when they leave their country also because of lower consumption demand?

At level of a national economy, several types of "crises" can produce, among which the most severe are financial crises (lack of money, increase in public and private debt, devaluation of national currency, inflation), social crises (are always born from another type of crisis), supra production economic crises (solvable demand crisis), sub-consumption economic crises (which generate production decreases, loss of jobs and lower national income in commercial economy), sub-production economic crises in industry and agriculture (crisis of productive potential absence hindering the supply growth), industrialization or disindustrialization crises, investment crises, crises caused by credit absence, as well as other types of crises felt only in some economic fields, such as: seasonal agrarian crises or economic crises taking place in industrial fields (steel and iron

crisis, oil crises, energy crisis, food industry crisis, durable goods industry crisis. These crises can be singular, some of them can give another type of crisis (successive) or can take place in parallel (concomitantly).

Actual economic crisis from Romania is not a short term crisis (by model of crises described by Kitchin, Juglar or Kondratieff cycles), but it is a profound crisis caused by effects of several governmental actions, among which the most decisive were: 1. Hurried price liberalization; 2 Exchange rate liberalization; 3. Liberalization of commercial exchanges with abroad; 4. Agriculture disorganization. 5. State property enterprises decapitalization during 1990-1991. All of them, without preparation and insurance of necessary and specific conditions in order that native producers should function and face with competition on domestic market of imported goods.

Unfortunately, the first persons who used in Romania the liberalization of exchanges with abroad, were state authorities and administrations (army, central and local administrations) plus public autonomous companies and enterprises which promoted urgently imports of goods and products paid from the state budget, in the detriment of native producers and their employees payers of taxes and fees! In spite of the fact that budget money „is not done by state”, but it only collects it by taxes and fees from producers and consumers.

The second category included clerks from bank system who woke up with „dream salaries” higher than income of any other employee in the country, inclusively than ministers and parliamentarians, plus money accumulations in the bank sector, with which they did not know what to do.

The third category included private economic units and only the fourth category included private persons who succeeded to procure foreign currency they needed, legally exchanging foreign currency, by taxes or other various ways, of which some were illegal or unfair.

Direct result of naïve or nonsense liberalizations, had as direct effect gradual cease of native productions, which had at its turn other effects whose removal needs at present measures at level of national economy: **1.** Disindustrialization of national economy; **2.** Reduction to almost half of jobs and as such, reduction of household income and increase in state social expenditure; **3.** Destruction of organization types for high agricultural productions; **4.** Reduction of purchasing power of population households rising prices because of additions imposed by the state (VAT, HIC, excise duties, etc), as well as by rises practiced by tradesmen, supported by state setting up in 1990 a trade margin of 30%, increased in time by distribution networks to 200% and over, measures which repealed the importance of production costs and destroyed competition of producers on the market!

Unmeasured rise of salaries during 1990-1992, without increasing the physical productivity (yearly GDP decreased then by -5.6% in 1990, by -12% in 1991 and -8.8% in 1992), introducing all kinds of increases of salaries, bonuses

and the 13<sup>th</sup> salary, plus return of social parts to those who contributed and subsidizing by provisional government of price for consumer goods imported in the first years, increased monetary fund on the domestic market and caused an inflation which severely decreased the purchasing power of income and reduced not only domestic consumption of population households but also power of national currency in comparison with US dollar.

When demand of products disappeared being planned to be exported in CAER countries (abolished in 1991), all the rises of salaries imposed to the government by trade unions, justifying that in the democracy everybody should live a good life, plus abandoning the measures of good administration of properties (public, cooperative or private ones) to which added civil disobey and organization of all kinds of anarchic manifestations, economic collapse together with higher income uncovered in productions and work, have always been and everywhere measures that ruin the economy. In limit cases, preventing such manifestations is done introducing some measures of prevention or an urgent or restrictions situation forbidding explicitly several actions and liberties and sanction very severely theft, vandalism actions, provoke to disorder and anarchy, these measures can be put into practice only by the army, as hierarchically organized force where it is precisely known who gives the orders and who executes them. Is this the cause which determined CSAT and Parliament from last legislature to abolish the army based on troop including young persons recruited based on the obligations for military stage, today substituted with employed mercenaries of private firms paid from budget money?

After the fall of economy during 1990-1992, it followed the Văcăroiu government, which, although it had not legal right to mix directly in the economy (FPS was subordinated to the Parliament by law!) succeeded to stop the fall and to start a re-launch.

It followed the democratic change of majority parliamentarians and the government after the elections from November-December 1996 and it was expected an improvement of average living standard.

Signing in February 1997 the memorandum with IMF, was the first proof of naivety of the new government members which had to change completely the course of national economy by means of measures from the programs FESAL and ASAL, clear expression of anti-development for the concept introduced by the rules of „Washington Consensus” imposed by International Monetary Fund. In fact, IMF representatives tried to impose to Romania the same measures during the previous government too, but were rejected in 1993. So after 13 years since the acceptance of these programs, instead of re-launch, national economy reached to need rehabilitation!

According to Jacques Genereux (*Les politiques économiques*, Editions du Seuil, Paris, 1996), re-launch means action done by the government in order to

support national economy or some sectors, through by measures stimulating development and creating of jobs. Absence of commercial, monetary and financial relations of one country with the rest of the world or their existence at a lower extent in order that their adverse relations should not change into restraints when there are adopted more moderate or more restrictive economic policies, called *close economy*. Its opposite is called *open economy*, in which, the multiplier is lower than in close economy, because of few population inclination for imported goods consumption.

Existence of a close economy should not be understood as a shut of borders, but as a precaution in front of „others” mixture in commercial, monetary and financial issues of the country. We remind you that before 1990, Romania had a developed national economy in comparable valid terms of the XX-th century, because in the first half of that century it was an agrarian country, slight traces of industrialization being practically obtained by 1918 unification of old kingdom with Romanian territories under occupation of Austrian-Hungarian empire. Because of absence of electric energy producers (thermo-power stations and hydro-power stations) and producers of fuel (coal), at the beginning of the sixties, industrialization started timidly and registered a delay of about 10 years.

After national economy stagnation during 1982-1989, caused by arbitrary use of resources of national economy and forced return of external loans accompanied by forbidden fill in imports needed to function the production capacities and carry out some products, development degree of national economy in Romania remained more behind the economies of developed European countries. From these reasons, after expressing the option for market economy and right state, it was necessary that Romanian governments after December 1989 should loan and adopt from developed countries only principles, policies and methods used when they were developing and not those of today.

Michel Didier, another great French economist, wrote in 1992 (Economy – Game rules) that „economic expansion needs the simultaneous development of households consumption, investment development which create jobs as well as stimulation of public consumption of native products”. Within an under-developed economy, exports play a lower role, because purpose is not growth, as in case of economically developed countries, but only procure of foreign currency for imports needed to investments and technologies used in the production.

Trade with abroad of one big country as USA, which reached 300 million inhabitants, represented in the XX-th century an average between 8 and 15% of GDP, when, except period during the two world wars, had as main concern to produce goods and services for domestic consumption and jobs for the population of the country.

External commercial exchanges of economically under-developed countries, have a lower volume from viewpoint of value, because GDP they could achieve,

is lower because of under-development and lack of resources (capital and skilled labour force). Also having a low number of production capacity, developing countries as well as economically under-developed countries have a lower export potential, because of productions achieved they should provide and cover with goods and products domestic consumption. Using slogans, and accepting to be bribed or fooled with accession in an international organization or with providing a „specialized consultancy”, Romania reached in 2008 to export 25% of GDP while GDP in industry and agriculture was 28.72% of the same GDP!

„World” is not at all ideal and the fact that some countries are economically super-developed while many others (with over 86% of world population) are under-developed and cannot even assure daily food for their populations, should determine state people from economically under-developed countries or developing countries, not to extend “more than their blanket”, if they were not able to learn what they should do to develop national economy and not only of their persons!

***Why it is important in the country administration, to know the principles specific to macro-economy!***

Macro-economy was launched for the first time in 1933, by Norwegian economist Ragnar Anton Kittil Frisch (1895-1973), laureate of Noble Prize for economy in 1969, becoming known in the world after 1930 when it was created a society of econometry, branch of statistics dealing with testing economic hypotheses and estimation of parameters using multiple regression techniques, as well as using some more complicated methodologies (Dictionary MacMillan of modern economy, editor D. Pearce, 1992).

As part of economic science theory, macro-economy has in view the following categories of problems:

1. Economic measures and decisions regarding national economy, its sectors and fields, production aggregates, investments, jobs at national level and economic policies providing an adequate dynamics in the economy;

2. Interdependences within national economy, among global variables which synthetizes and characterizes the system, such as dependence between number of employees and level of average income of population households, between production and investments in production capacities, between production and aggregated demand, between number of tax payers and number of budget consumers and so on;

3. Knowing total economy as a whole in order to be able to carry out forecasts over the evolution of economy or to take short term measures during the growth or the recession periods, because the system regulation is not possible but taking correct measures (when it is a growth period, indirect taxes should be increased, while during recession indirect taxes should be reduced). Direct taxing

of income should represent the highest part of national budget income, because the only inhabitants of the country who take part in carrying out and dividing the national income are employees and patronage. The solution of lower direct taxes for high and very high income is only an unfair solution, but also determines decisively the polarity of society into rich and poor.

Change or reformation of some structures, need beforehand to change others that are in interdependence with the target structure.

More rapid creation of middle class is obtained only by government concern to avoid a preferential taxing, such as unique quota. Middle class represents that part of population households which has assured the existence and does not depend on electoral promises of political parties. In order to be efficient this category should be more than 50% of total households. Theoretically it could be represented by 60% of population households situated from income viewpoint in real money, between upper fifth (20%) of inhabitants with fortune and the highest income and lower fifth (20%), getting the lowest income. Promotion to middle class is done only from down to up namely from the base to the top. A graph representation of those five situations by income, should not show as a clepsydra or a section through a champagne glass (because in this situation, middle class is not achieved during 100 years). In a graph representation of a section by a „water onion” a little longer, 60% of population households ordered by income level, are focused over and under the average.

In 1995, prof. Paul Samuelson, the first American who received in 1970 the Noble Prize for economy, underlined that „The main task of macroeconomic study in our days is to **diagnosis the economy situation and to recommend adequate measures and solutions.**” Because of all kinds of interdependences and conditioning, macroeconomic thinking is not perceptive directly by usual individuals, but only when they have the occasion to compare their knowledge or experiences, with findings they directly did in other countries, such as, for instance, finding that prices of some goods from another country are higher or lower than „at home” (rises which can be determined by exchange rate between two currencies or due to different degrees of national economies development), but also when from domestic market one product disappears being carried out in the country and instead of it there is provided another important one, more expensive or cheaper.

A similar situation is also occurred when, within an economically underdeveloped country or developing country, it is wished to know the cause of discrepancies among small income entering one household and prices on the market. Those who do not know believe that in order not to suffer, it would be needed a salary rise, not knowing that such a solution is always returned against them. Solving such a situation passes not only through higher number of employees by household (family), but also by creating new jobs instead of those

dissolved, both to assure unemployed employment and to reduce by 70% actual weight of population working in agriculture etc.

Economically developed countries have not the same economic interest as developing countries which wish a higher living standard and civilization, because „developed states” need selling markets for goods they produce to keep their jobs and to avoid additional expenditure with unemployed requalification and maintenance.

Who understands what is a national economy, knows that economic power of one country directly depends on production factors that country has at its disposal, namely: **1.** Number and size of production capacities (industrial, agrarian lands or construction ones, raw materials, fuel and infrastructures) which form the so called productive fortune of the country. **2.** Total number of labour force and its level of qualification.

We can have in the country a huge area of exceptional agrarian lands and several raw materials, ore deposits, coal, petroleum and natural gas, but if we have no industry, enough energy producers, as well as infrastructures such as railways, highways and telecommunications, economic power of respective country can be but small or very small.

Attention! Macro-economy does not take into account good sense (underlined by Ragnar Frisch), meaning that its solutions are general and not individual, are economic and not political ones.

In the paper „Spirit of laws” issued in 1748, Montesquieu remarked that „A man is not poor because he has nothing, but because he has no job. Within a good democracy, where you should not spend but for necessary things, everybody must have that “necessary! State has the duty to come with a prompt help, either not to leave people suffering, or to avoid its revolting”.

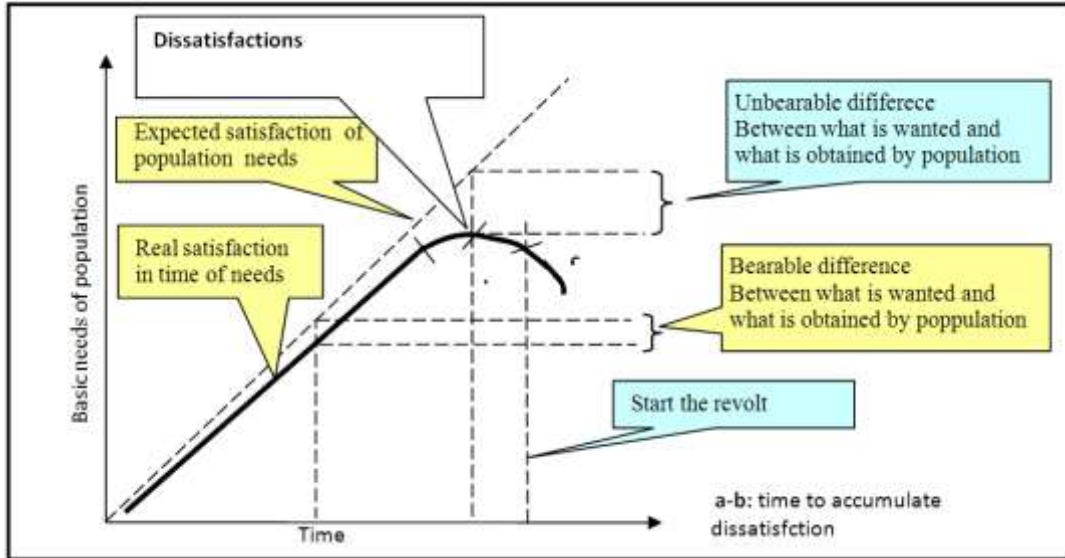
Relation between wishes or needs of inhabitants and possible growth of dissatisfactions can be estimated by place on the line of satisfaction evolution in comparison with expectations, this process is illustrated in figure 1. In 2009, Romania reached in the field of dissatisfaction accumulation between limit points **a** and **b**, from where it can easily pass to the field of radicalization to point **c** on the graph curve.

States which developed from economic viewpoint and reached to high living standards, could not get performances, if members of their governments and parliaments, would not have understood the importance for good way of their national economy, assuring the following three conditions:

- 1.** to exist enough jobs for active age population;
- 2.** investments in productive capacities to increase economic power and national fortune;
- 3.** importance for development and welfare, of passing to achieve mass production.



Populations of countries where their leaderships were not able to realize what they did or when they exceeded this disadvantage of knowledge could not or did not want to understand the meaning of these conditions achievement, carry on suffering in the XXI th century too!



**Figure 1. Evolution curve of differences between population wishes and what it obtains**

Source: details by James C. Davies, „Toward a Theory of Revolution“ quoted in Wolfgang Zapf (editor), „Theorien des sozialen Wandels“, Editura Kiepenheuer und Witsch, Köln-Berlin, 1970.

### What does say or indicate the statistics

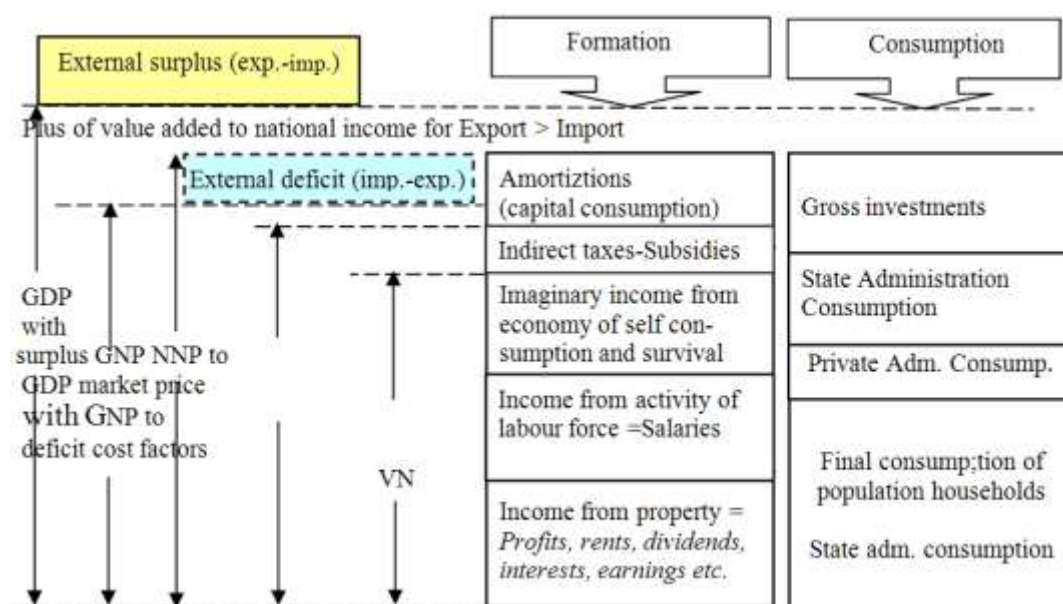
All the statistics which present the evolution of states national economies, currently issued by various authorities, internal and international institutes, as well as by researchers and authors of books, show how the countries in the world evolved to economic development from agrarian stage to post-industrial stage. Taking into account that in Romania of the last 20 years, that process was reversed, we present now, also in statistical data, the evolution of this decrease process called disindustrialization, namely the way passed by national economy from industrial-agrarian stage existent before 1990 to actual agrarian-industrial stage, this stage entered Romania also in the middle of the thirties and succeeded to promote to the next, just in the middle of the seventies! Always when you set up what you have to do, you have to take into account that economically developed countries from European Union were in this stage 100-120 years ago! So advice given by western state people (Tony Blair, Gerhard Schröder, Wolfgang Schäussel, Silvio Berlusconi, etc) should be inventory only to serve later when Romania reaches at development stage of their countries.

Instead of Romanian national economy be close during 1990-2010 to the development level of EU member countries, through some naïve or aberrant

measures taken by the country governments and by parliament or those imposed by IMF or suggested by western councilors employed by governments or received from western countries, since 2008, could measure not only counter- performance of higher economic gap existent in 1989 between Romania and western countries, but also concrete results destroying industry as the elementary base of national economy development.

GNP size depends on GDP size, which at its turn depends on size of productive potential of the country, namely number and size of production capacities and number and qualification of labour force. In open national economies, difference between these two indicators is  $GDP = GNP \pm \text{net export}$ . This relation expresses 100% the saying about „you should not extend more than your blanket!”

GDP represents the sum of values at market price, of all the goods and services produced inside the country by one national economy, no matter of labour force and owner citizenship.



**Figure 2. Scheme representing the evolution of productive activities value in one country from GDP to national income and how it is formed and consumed**

Gross national product (GNP), represents value of current production obtained by Romanian residents, both in the country and abroad or in other words, value of all goods and services achieved during the year by production factors owned by the country and also provides the first information to evaluate the welfare of the country inhabitants. These indicators are calculated based on data from national accounting,

identified, collected and registered for all types of human activities which create value added. According to national accounting, market economy has specific production, distribution and consumption and economic units are enterprises, institutions and population households.

Gross national product of which one country national account is formed, can be higher or lower than Gross domestic product, in keeping with the results of commercial with abroad. Taking into account that exports can have a higher or lower value than imports, creating surplus or deficit, the result of these commercial exchanges represents net export.

Surplus means a plus to national income which is distributed, while deficit reduces national income which is distributed (salaries). An addition which has a high weight in the countries with under developed economy, is represented by activities whose results are not distributed by the market, their product serving for self consumption, for mutual aid or for charity purposes.

In spite of poverty, very poor countries inhabitants live not only from hunting and what they find in the nature, but also with products of own activities contributing to assure their daily existence! [This was officially recognized at the same time with the generalization since 1995, of European System of Accounts (ESA 1995). From the viewpoint of a national economy development, this part of national economy has not component of national income which is distributed, but a value in virtual money, most of these activities belonging now to non-commercial economy!

Net national product at market price, is equal to GNP minus capital consumption (annual amortization of fixed assets). Subtracting from NNP the size of net tax (indirect taxes minus subsidies), it is obtained net national product at factors cost, which represents national income which is distributed.

Primary distribution of national income is done by components of production factors, namely, labour and capital, while secondary distribution is done by direct taxing when out of sums collected by taxes and fees, it is paid the activity of budgetary employees, there are paid the pensions, unemployment benefits and various allowances cashed in keeping with the law by persons receiving public assistance, such as: unemployed, families with several children, elderly, children, persons with physical or psychical deficiencies, uncured sick persons, etc. As it can be noticed on the scheme presented in figure 2, income size of a national economy and size of consumptions from the same national economy, depend 100% to size of GNP, shortly GNP. Gross national income is equal to gross income from employed work plus gross income resulted from property namely from capital use.

**GNP +/- net export net = GDP**, which can have two different sizes due to net export:

**GDP with surplus > GNP** and consequently increases available national income of the country.

**GDP with deficit < GNP**, meaning that reduces available national income of the country.

**Nominal GDP** divided into deflation index (against previous year) = **real GDP**, indicator which has nothing in common with purchasing power parity of GNP/capita (PPP)

**GNP – Amortizations** (capital consumption) = **NNP at market price = Net national product**

**NNP at market price – indirect taxes + Subsidies = NNP at factors cost** (of production) = **Available national income** which is distributed to the participants.

**National income which is distributed = income from salaries + income from property.**

Part from national income which results from employed work, represents gross income from physical and intellectual work of those who contributed as employees to achieve value added, including managers and leaders who are not owners of properties they administer and which can be private, public or mixed.

Part of the same national income which results from capital, represents income from property, namely salaries (dwellings, lands), rents (factories, buildings, outfit), interests from capital (including interests for bank deposits of population), dividends (namely benefits of shareholders) and profit, and part which results from activity of enterprises represents income cashed by owners for their own work (employer firm manager, direct provider of independent activity as farmer, plumber, butcher, hairdresser, baker, lawyer, notary, medic, veterinary, instrument player, actor, writer, director or newspaper editor, etc).

Imaginary income from self consumption activity and production, are also taken into calculation after their official inclusion in the European System of Accounts ESA 1995. these income have a higher weight in national economies of poor countries and a lower weight in rich countries.

From the viewpoint of consumption (represented in right side of figure 2),  
 $GDP = \text{final consumption} + \text{Investments} + \text{public expenditure} + \text{Value of exports} - \text{Value of imports}$  or in other words,  $GDP \pm \text{net export} = \text{final consumption} + \text{Investments} + \text{public investments}$

If net export produces surplus, then increase possibilities to increase income which is distributed in the country and if produces deficit, income cashed in the country will be lower.

### **Causes of decay taken into account when rehabilitation measures are elaborated**

Unfortunately, all post December governments did not take into account that national economy achieved net national product of which are obtained income of population households and of state, plus amounts of money invested in production capacities. That is why, almost all policies adopted over time were „against

economy” and produced several direct effects, indirect and collateral negative ones of which we remind you the following:

- A. Dissolving the jobs, measure that severely reduced number of employees from national economy to half of what should be for about 21.5 million inhabitants;
- B. Reducing the weight in value added from total GDP, of agrarian and industrial production;
- C. Reducing each year from annual consumption, the weight of products from agrarian and industrial native sector;
- D. Permanent growth of annual consumption, of weight for consumption of imported goods per debt, both within population households and consumption (administrations, army, services, police, railways, city transport, etc);

For daily growth of weight for consumption of imported goods, directly contributed the following effects resulted from measures and policies applied by state and political class:

1. Decapitalization of enterprises against economy measures, adopted by the owner state;
2. More expensive credits with inflation;
3. Absence of investments to keep production capacities and replace amortized fixed assets (consumed capital);
4. Liberalizations with shock, without preparation and stages, destroy automatically interdependences;
5. Encouragement on the domestic markets of import products offensive;
6. Higher prices for goods and services, by higher costs, excise duties, VAT and a very high HIC for enterprises from productive sectors;
7. Absence of Romanian governments concern to remake and keep the domestic consumption;
8. Privatization of industrial units if they had remained without consumption demand which should give the possibility of new owners to take over the production. Facility to carry out the “Program of industrial enterprises privatization”, if on 01.01.1990, Romania had only about 1/10 production capacities necessary to bring national economy at level of EU developed countries, showed since 1991, that national economy of Romania goes to disappearance!
9. Facility with which Romanian governments accepted carelessly, all the IMF, WTO and European Union conditions whose effect finally caused the cease of native production;
10. Promoting imports with credit determined that sum of foreign trade deficit reached 142 billion USD on 31.12.2008 (of which 91.7 billion USD only during Popescu-Tăriceanu government), when external debt of the country reached on 31.12.2008 enormous sum of 98 billion USD. In order to understand this severe situation, we suggest to remember some privations which you and your parents

have lived during 1982-1989 and multiplied with 10 (actual debt divided to past debt) to get time when the amounts could be returned:  $10 \times 8 \text{ years} = 80 \text{ years!}$  We ask if it is ok for you, because now nothing can be repaired! In this situation, the only question is: **What we do or what we should do?**

Evaluation of exchanges taking place each year at level of physical production in the economy is obtained by real GNP or real GDP which differ from nominal GNP or nominal GDP by that fact that are values deflated by influence of price rises as against basic year. Deflator GNP is ratio between nominal GNP (nominal or current prices) and real GNP (constant prices) and until 2005, it could be found in all the annual reports of National Bank of Romania.

From viewpoint of GDP value in constant prices and implicitly of annual deficits of commercial exchanges with abroad, it is noticed that in spite of the fact that national economy reported real GDP growths (as against previous year), in comparison with 1989 it was all the time under the level of value added that year. This because when a foreign trade deficit is registered, it is subtracted from GDP, as compared to situation when it is a surplus, when it is added and increases GDP value (GNP + net export).

### **Evolution during 20 years of „Value Added” calculated in constant prices 1989**

Since the end of 1990, value added within national economy of Romania decreased permanently up to the end of 1992 (broken line A-B from figure. 3), marking the fall taking place since 1989 and shows symptoms proper to a recession.

Due to the measures taken by the government created on 20.11.1992, the process of economic depression stopped during 1993 when it was succeeded a slight economic growth of +1.5%. Continuation of this growth, with all the imperfections and unfulfilment inevitable for such a process, covered three more years until 31.12.1996 (segment B-C) when the new government settled after the elections, started over beginning with 01.01.1997! In comparison with the recession during 1990-1992, which was provoked by overlapping a crisis of overproduction due to loss of selling markets in the CAER space with higher inflation (as major effect major of new trade unions activity) with salaries granted by other criteria than results in the economy, also using 90% of budgetary funds planned for investments works in 1990, the government that followed up to December 1996, succeeded to stop the fall of 26.4% in the first three years (from a GDP of 800 billion lei at the end of 1989, to 599.5 billion lei at the end of 1992, calculated in comparable prices 1989).

The second recession in which we entered in 1997 was caused both by incompetence in economic issues of that government, and due to acceptance of IMF conditions by FESAL and ASAL plans, by which it was set up the number of producers that are closed or are not sold. New recession also lasted three years

until 31.12.1999 (point D of the graph), afterwards started to grow in 2000 and continued until reached point E in the first part of 2005 when reached again the GDP value which was also achieved at the end of 1996, but with other components. During 2005-2008, gross domestic product evolved upward between points E and F from figure.3.

Because this accident which since 1996 restored the recession in Romanian national economy which should not be produced, it would have been necessary that in 1997 had been continued the economic growth also by the government of CDR, FSN-PD and UDMR union, the positive evolution is to be an imaginary itinerary which is indicated by the line between points C and A1 from the graph in the figure 3. Only that, out of those 15.000 experts on whom relied the CDR (political convention in power), it seemed that there were not found even 15 persons to be devoted to the convention and to know what it is the national economy! That is why Victor Ciorbea chose to do everything, in keeping with his will and "skill"!

As it is known, in all the recessions, jobs are lost, that is why it is necessary that governments should deal with achieving others in the new production capacities where unemployed could be employed. In Romania; the young prime minister of 1997, who had known these only from newspapers and TV, considered that to „clean” a national economy, it is needed to use the same methods that are daily used by sanitation enterprises which clean the streets of the towns! Without thinking that when you put into practice such solutions, nothing will go and will not function anymore!

Evolution of macroeconomic indicators presented in table 1 show that actual economic crisis in Romania is endogenous and that influences of international crisis, are to be added, each time when Romania needs foreign currency for imports or to pay debts abroad.

Considering that values of annual growth percentages which are reported each year and presented in column 4 of table 1 were correct, they show that during 1990-1992 and 1997-1999, national economy was falling, while during 13 years, there were announced only growths.

Because available national income finally results from GNP calculated subtracting from GDP annual deficit of foreign trade, growth of external deficits caused by surplus of imports, annihilated benefic effects of GDP growths in 1993 and 1996, as well as in 2000 until 2008 inclusively! As size of this deficit, indicated in column 5 of the same table (with minus), was higher in total during 17 years, column 6 of table 1 shows that GNP effectively reduced during 17 years of 20, maintaining the economy in a situation that should remember the Romanians because it is described in "The Ballad of Master Manole" (on what he did during the day, brakes down at night)!

Annual increases in the economy (which brings an annual surplus of national income in local currency) have been undermined each year by foreign currency shortages which caused increasing year by year too by imports on credit made elsewhere!

The only years of recovery (and those less than 1% of GDP) in 1994 and 1995 were years in the time Vacaroiu minority government (which was not a member of FDSN-PDSR -up in 1996) severely criticized at the time and accused refuses to reform the economy! As a former employee of CSP, it is possible for him to be aware that the national economy needed a development strategy to produce money and not spend the budget (the sustainable development strategies), taking into account existing deficiencies and conditions transition from command economy to market economy!

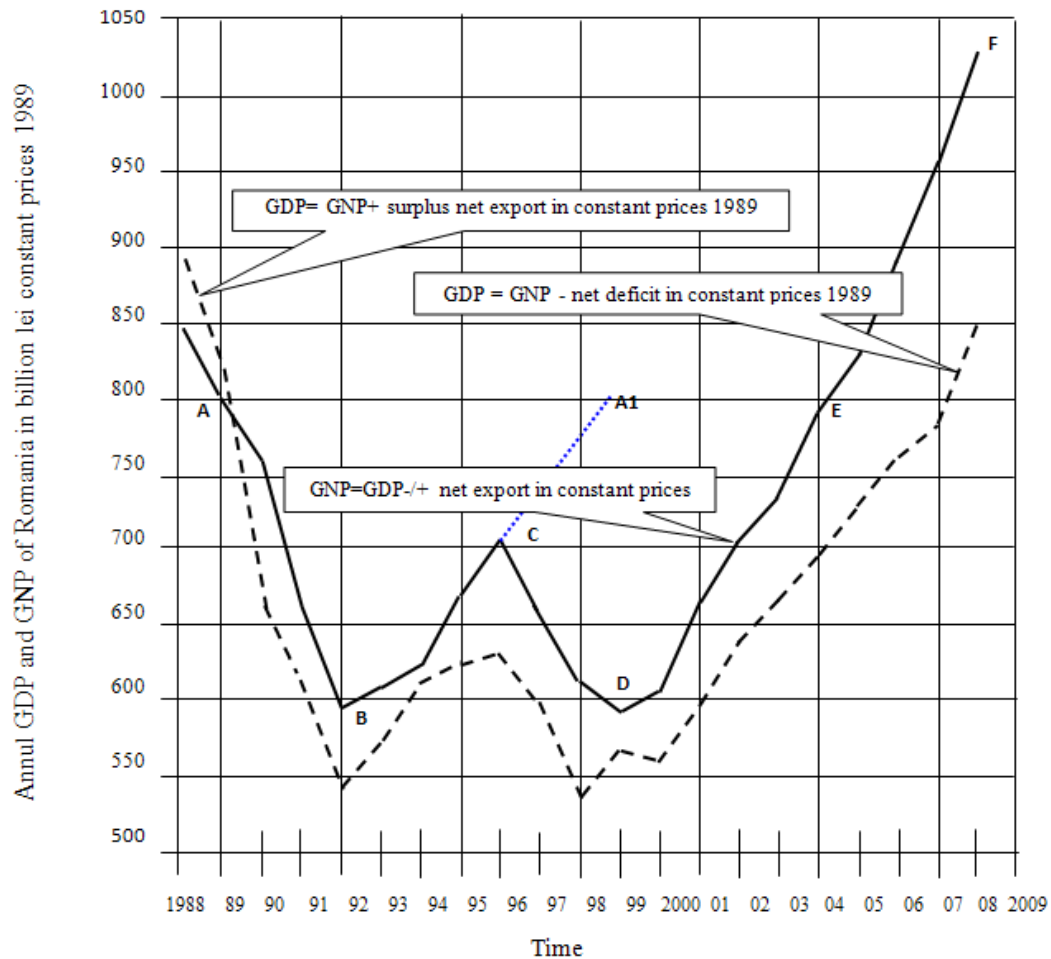
The fact that he managed to stop the fall of 26.4% in the first three years (from a GDP of 800 billion lei at the end of 1989 to 599.5 billion lei at the end of 1992, comparative calculations in 1989 prices), was not appreciated in the country, but became a "hope" in other parts of the world where we know for sure what is a national economy!

But Vacaroiu government "stepped wrong" to trade with other countries! Under pressure from party colleagues and especially from importers, he had to "swallow" in 1996 a foreign trade deficit - 9.4% of PIB (3.35 billion U.S. dollars) in GDP growth of only + 3.9% over the previous year, while in 1994 imports have produced the lowest deficit in all these 20 years namely 958 million dollars (col. 7 of table. 1), which ought to be interpreted in Romania, he can live with less external debt!

As you can see for ourselves, GDP in constant prices obtained in 1996 the value could be recovered only after the end of 2002 and that the aid actually received by the introduction of the European System of Accounts 1995, which made it possible for the recalculation, to jump from a GDP of 603.21 billion lei in constant prices reported at the end of 2000 to 633.62 billion lei, representing an increase "in pen" of 5.54%, also the same as the full year 2001 growth! Since the deindustrialization have disappeared the most productive capacities too, the value GDP has been inflated from cost increases and not from increases in productivity.

Keeping the economy in the situation of which should Romanians remember because it is described in most of production capacities, GDP value was higher due to higher costs and not higher productivity, plus introduction in GDP the results of speculative economy.





**Figure 3. Evolution during 1988 - 2008 of Gross Domestic Product measured in constant prices 1989 and Gross National Product**

That is why it is more than sure that just in 2008, national economy of Romania reached practically the level of GDP from 1989, but without production capacities and only about 47% of existent jobs on 31.12.1989! You like me, have learned since childhood that persons who can solve a solvable problem are considered incapable (for that issue), although they can be some celebrities in their professional field! It is scandalous, how they could not go aside in front of the problem of national administration and leave others do what they could not understand or know!

As you probably realize, economic and development aims which should be pursued by Romania, cannot be the same with developed countries from European Union, until national economy of Romania does not reach the situation that its

producers could face international competition. Especially since 2009, IMF had other aims it should start to pursue.

As it could be noticed in the last three lines of table 1, deficit of foreign trade during 2005-2008 amounted to astronomic sum of 91.694 billion USD (during four years), of total deficit of foreign trade of 142.048 billion USD achieved during 19 years by Romania! Designing and carrying out this deficit of foreign trade, contributed not only liberals and democrats from Justice and Truth union, but also their associates for the governance, namely UDMR and humanist party becoming meanwhile the conservatory party, without whose parliamentary support, Justice and Truth union could not reach to form the government in December 2004!

This huge deficit increased total external debt of Romania on 31.12.2008, to 98.640 billion USD, of which, short term debt was 30.180 billion USD (22.356 billion euro) and long term debt 68.460 billion USD (50.711 billion USD euro). Per capita, external debt of the country increased from 1.037 USD/capita in 2004, to 2.552 USD at end of 2006, at end of 2008 it reached 4.581 USD/capita.

Because expensive goods imported by debt can be purchased only with money, of this kind of prosperity cannot benefit all the inhabitants, but some of the population, including owners of properties (fortunes), active speculants on the market, speculations of lands and „developers” from construction, owners of casinos, betting houses and their clients, as well as clerks from bank and insurance system, managers of big commercial companies, about 50 thousand state high officials, state officials who deal with privatizations or public-private partnership organizations (a new way of theft from smart boys), and leaders of local and county authorities that distribute or manipulate public funds.

Among data presented in table 1, only values from columns 8 and 13 are certainly expressed in real money, the rest being a mixture of real money and imaginary money, because out of annual GDP, about 1/3 is obtained by suppositions and therefore imaginary money.

Within a system of market economy, the main producers of goods needed by the people, are always economic units who work in agrarian and industrial sectors (columns 3-4, table 1). Existence of construction and services activities, no matter if it is about trade, transport or communications, it is supported only by existence of agriculture and industry.

Among all the activity sectors and fields of a national economy, industry is the most important because gives jobs for most of labour force in a country, it can achieve mass production and goods with lot of value added that can be exported, it decisively contributes to growth of national economy productivity and volume of products leading to higher living standard of people and higher civilization of society.

Values calculated in constant prices 1989 from columns 1 and 2 from table 1, help us not only to see on the graph of figure 3 how was during 1988 = 2008 the curve of growth or fall of economic power and force of the country, but it is also useful to compare among them the achievements obtained and to set up what correlations existed between production volume, evolution of industrial sector size and employment. Annual growth and fall of value added is dependent from changes in the capital stock (production capacities), size of population with its implications over structure by age of labour force and technical progress.

Data from columns 9 and 10 from table 1 represent the radiography of development and disindustrialization of a national economy. Evolution of values from column 12 represents value in GDP which remains for domestic consumption after subtracting value of exported goods obtained in agriculture and industry, column 11 representing their weight on GDP. From 45.67% in GDP in 1990, this weight decreased to 10.16% in 2000 and reduced later on to 3.33% of GDP in 2008, when exports represented 25.39% of GDP.

**Macroeconomic parameters obtained during 1988- 2008 by national economy of Romania and link between disindustrialization and native production (column 9 and 10)**

Table 1

year	GDP calc. in constant prices 1989 bill lei	GDP repor. calculated in current prices bill lei	Growth in GDP %	GDP reported to WB in million. USD	Net export		Effect on GDP %	Total FOB export million USD.	Value added of agrarian- ind. sectors million USD and % of GDP			What remained for domestic consump. from agrarian- ind. sector after export was subtracted	Value in USD of imports CIF	Total annual consump. (col.7 + col.8)	Weight of deficit in total annual consump. col.5/col.14
					Surplus or deficit million. USD	% GDP reported			9	10	11				
0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1988	849.38	857.0	-0.5	42.760.0	+2.367.4	+6.00	+5.5	11.393.8	61.40	26.234.6	56.60	14.861.8	8.280.0	23.141.8	+11.09%
1989	800.00	800.0	-5.8	40.280.0	+1.346.0	+3.34	-2.46	10.487.4	60.56	24.394.6	57.00	13.907.2	9.141.4	23.048.6	+5.84%
1990	755.19	857.9	-5.6	34.730.0	-4.194.6	-12.0	-17.6	5.775.4	62.30	21.636.8	45.67	15.861.4	9.970.0	25.831.4	-16.24%
1991	657.88	2.003.9	-12.9	27.619.0	-1.354.3	-5.6	-18.5	4.265.7	36.80	15.687.6	41.35	11.421.9	5.820.0	17.241.9	-9.01%
1992	599.50	6.029.2	-8.8	22.438.0	-1.903.1	-8.5	-18.3	4.363.4	57.30	12.856.9	37.80	8.493.5	6.266.5	14.759.8	-12.89%
Leg.1	2.012.5			87.787.0	-7.632.0	-	-	7.652.0	-	-	-	-	-	-	-
1993	608.49	20.035.7	+1.5	25.969.0	-1.630.2	-6.3	-4.8	4.892.2	54.80	14.227.7	35.65	9.355.5	6.322.2	15.857.7	-10.28%
1994	632.22	49.773.2	+3.9	30.086.0	-958.4	-3.2	+0.7	6.151.3	56.10	16.878.2	35.65	10.726.9	7.109.7	17.836.6	-5.37%
1995	677.21	72.135.5	+7.1	35.333.0	-2.368.2	-6.7	+0.4	7.910.0	52.70	18.725.9	30.43	10.815.9	10.278.2	29.541.8	-8.01%
1996	703.75	108.919.6	+3.9	35.508.0	-3.350.8	-9.4	-3.5	8.084.5	52.40	18.606.2	29.63	10.521.7	11.435.3	21.957.0	-15.26%
Leg.2															
1997	655.22	250.480.2	-6.9	34.843.0	-2.848.4	-8.3	-15.2	8.431.3	48.90	18.994.2	30.32	10.562.9	11.279.7	21.842.6	-13.04%
1998	607.20	338.670.0	-7.3	34.158.0	-3.535.9	-10.3	-17.6	8.302.0	40.70	13.902.3	16.39	5.600.3	11.837.9	17.438.2	-14.54%
1999	599.80	521.735.5	-2.3	33.750.0	-2.069.6	-6.1	-8.4	8.487.0	38.10	12.858.7	12.95	4.371.7	10.556.6	14.928.3	-13.86%
2000	603.21	803.773.1	+1.6	36.719.0	-2.688.0	-7.3	-3.7	10.366.5	38.40	14.100.0	10.16	3.733.5	13.054.5	16.788.0	-16.01%
Leg.3															
1998	627.59	338.670.0	-6.4	34.158.0	-3.535.9	-10.3	-16.7	8.302.0	40.70	13.902.3	16.39	5.600.3	11.837.9	17.438.2	14.54%
1999	619.93	521.735.5	-1.2	33.750.0	-2.069.6	-6.1	-7.3	8.487.0	38.10	12.858.7	12.95	4.371.7	10.556.6	14.928.3	13.86%
2000	633.62	803.773.1	+2.2	36.719.0	-2.688.0	-7.3	-3.1	10.366.5	38.40	14.100.0	10.16	3.733.5	13.054.5	16.788.0	16.01%
Recal.															
2001	669.69	1.167.687.1	+5.7	38.718.0	-4.175.0	-10.8	-3.1	11.393.0	41.04	15.889.9	11.61	4.496.9	15.568.0	20.064.9	20.81%
2002	702.54	1.514.750.9	+5.1	45.790.0	-3.971.0	-8.7	-3.6	13.876.0	39.52	18.114.5	9.26	4.238.5	17.847.0	22.085.5	17.98%
2003	736.96	1.903.353.8	+5.2	56.951.0	-5.984.0	-10.5	-3.3	16.722.0	38.99	21.960.3	9.20	5.238.3	22.706.0	27.944.3	21.41%
2004	*798.12	2.387.914.3	+8.3	73.167.0	-9.123.0	-12.5	-4.2	23.515.0	39.96	29.244.8	9.20	6.729.8	32.638.0	39.367.8	23.17%
Leg.4				214.626.0	-23.253.0			65.506.0	39.79	85.399.7	9.27	19.893.7	88.759.0	108.652.7	-
2005	*832.44	288.176.1*	+4.2	98.365.0	-12.417.1	-12.6	-8.4	26.795.1	33.07	32.395.4	5.88	5.800.3	39.212.2	45.012.5	32.60%
2006	*898.20	344.535.5*	+7.9	121.609.0	-18.719.5	-15.4	-7.5	32.400.2	32.08	39.012.2	5.44	6.612.0	51.119.7	57.731.7	32.42%
2007	*932.09	404.708.8*	+6.0	163.629.0	-29.028.6	-17.7	-11.7	39.663.4	30.10	49.252.3	5.96	9.389.9	68.691.8	78.280.7	37.08%
2008	1.026.3	503.938.7*	+7.8	185.329.4	-31.529.2	-17.0	-9.2	47.039.0	28.72	53.226.5	3.33	6.167.5	78.588.2	84.755.7	37.20%
Leg.5				569.132.0	-91.694.2			145.917.7	30.59	174.086.4	4.95	28.168.7	237.611.9	265.780.6	-
Total				1.138.103.0	-142.048.5			288.453.0	38.48	437.960.6	13.13	149.507.6	430.501.5	587.456.6	12.48%
2009		491.273.7	-7.1			-8.4	15.5								

Recalculate Raportate

Source: Annual report NBR 1996, 1998, 2000 and 2004, INS Statistical Bulletin no.12/2002, 1/2003 and press release INS no.11 of 26.02.04. Statistical bulletin no.10/2008.

Or with 3.33% of GDP it is impossible to cover domestic consumption and so native production was substituted by imports. Moreover, VAT paid for exports is restituted by state to the exporters stat and it does not reach the national budget. In Romania, VAT is not paid by all the producers of value added, such as speculative activities which amounted to 12.63% of GDP in 2008, as well as budgetary whose value added reached 13.56% of GDP in the same year, similarly how they did not pay the HIC. In order to pay health insurance contribution for budgetary in 2008, the state should have had in the budget for 2008 entries of nonfiscal income equal to 7.5 billion USD plus VAT of 4.7 billion USD, debts which amount 12.2 billion USD!

Why he did not pay and did tax evasion equal to 6.58% of GDP? The answer is simple. Because he had not this money and he has not it now too! In 1990, government Roman gave to enterprises the state property, all the profits for the state owner reached the budget as nonfiscal income, while next governments destroyed nonfiscal income from lottery gains, gambling, cazinos, pronostics and bettings on sport competitions, monetaries and other natural monopolies and so on! The same category also includes the profit from value added to foreign residents owners of production properties, income which are taken into account in GDP of their residence country (SN Petrom, Rompetrol, CBR, RDB, Telecom, etc) diminishing GDP of the country where annual budget should be reported.

The same situation is with the economy of self consumption whose value added is a virtual one (about 29% of GDP), of which not even a unit of national currency cannot reach the state budget If for those 29% we also add value added from financial-speculative system of 12.6% of GDP and 13.6% value added of budgetary, their amount reaches 55% of GDP for which VAT is not paid as well as HIC. From where can imagine mr. Lucian Croitoru in 2009, (candidate for prime minister function) and mr. Ionuț Dumitru (president of Fiscal Council) in August 2010, that will rise to 50% of GDP income of Romanian budget? Ignorance, dilentatism or disinform? The same!

### **Why is important for the government, the income structure of the country's inhabitants?**

Within a geographical space limited by borders and populated by a certain number of inhabitants, the **first** information related to size of production factors is given by volume of goods and services which are necessary for total inhabitants of the country to cover their basic needs for living!

**The second**, refers to income distribution inside a country, because disturbing the balance that should exist permanantly among those seven categories of inhabitants income sources helping them to live, can cause the state bankruptcy, when increase the categories living by means of state income.

In keeping with status, origin and viability of income in time helping the inhabitants to live, they are grouped in the following seven categories.

**The first category** includes private owners, for whom, the main income source consists in holding capital (fortune), namely production means, lands and money. This category, besides owners and shareholders, renters from agriculture and owners of dwellings which they rent also includes owners of small and very small enterprises (who cannot pay a minimum salary, and who often live at this level, as well as free lancers, who can be lawyers, medics, dentists, teachers, advertisers and so on. Another group of this category includes those who fix computing technique and electronic apparatus, medical assistants and nurses, therapists, massage people, barbers, painters, carpenters, plumbers, tailors, shoemakers, cleaners and so on, namely professionals, who if they are put to pay a big VAT and HIC for their work, they double price of their works, which determines to destroy the demand and changes them from creators of personal income and budget into consumers of income from state budget (from which reasons you are not convinced that actual Ministry of small and middle enterprises, spends yearly more money than value of supports granted today?)!

**The second category** is that of employees, whose income source is holding a job paid! Cashing the highest quota from available national income, employees should be and the most important direct contributors of national duget, besides private owners from the first category who cash the rest from national income.

**The third category** includes the inhabitants who live turning into account their goods produced within agrarian sector, this social category size is reversely proportional to development degree of national economy. The more underdeveloped economically a country is, the more is the weight of this category in labour force of the country.

**The fourth category** includes the population which lives by self consumption economy. There where means of this category are very low, some of them live at limit of survival or under it and practically represent the group with the poorest population. Its size depends both on existence of some defective policy of primary distribution of fortune and income, and on absence of social correct policies at government level.

**The fifth category** includes persons who receive old age pension within state or private social insurance system.

**The sixth category** includes persons who live from family or household income (wives, children, elderly) and in which one or more members carry out useful paid activity (as owner or employee).

**The seventh category** includes persons who live with money or material aids, received from state budgets (unemployed, elderly, incurable sick people, several children families or families with insufficient income, handicapped, institutionalized children, etc.) or from private sources.

Not taking into account since 1989, by governments of exsocialist countries the division of inhabitants by income sources, or underestimation of importance to keep the balanced proportions of those categories, made to disturb not only existent economic and financial balance of the country but also of the income producers.

Total disconsideration of existence of supported categories and those who live in the economy based on self consumption production paralelly with promoting some privileged measures for some of the first two categories including active labour force (patronage and employees), contributed and carried on polarizing the society into rich and poor! The table 2, presents achievements in the field of labour force movement (column 2) and number of pensioners (column 5), during the first four legislatures, to let you know about the rate in which employees in Romania were changed from income producers into consumers from the budget (column 11).

In 2000, Romania had a population of about 22 million inhabitants. In order they could live as in Greece or even as in Portugal of 2000, it would have been necessary that GDP from commercial economy sectors (which are distributed by means of the market) to ammount 220 billion USD yearly. But practically Romania did not produce that year, but how to reach for about 5 million people! The rest of inhabitants remained apart, or in other words, were put in the situation not to be able to benefit of GDP financial possibilities and had to manage by agricultural productions of self consumption or using any other way to survive (hidden economy, thefts, cheat and so on)!

Redundancy of labour force influences not only production, but changes some income producers into consumer of budget, this process creates for the state several obligations it can solve only if it has enough fiscal and nonfiscal income. Regarded as consumption of labour force, one producer decision within a developed country to give up the suppliers from above determines a growth of unemployed number in that country and a demand of jobs of about the same size as in the country of the new supplier.

If one producer moves production in another country, for number of unemployed directly produced by his enterprise, it is added number of unemployed he decided to produce for the last suppliers and which is usually much higher than numer of his exemployees (for instance in mining a miner „gives work” directly or indirectly, to other 6.8 persons from other fields, including the state employees). This chain effect is produced in time, exactly the same as is produced when closing a factory.

**The main results obtained during 1990-2004 by post December governments, in the field of using labour force and social expenditure covered from the country consolidated budget.**

Table .2.

line.	Year and period of legislature	Total employees at end of year and governance or legislature stage		Jobs minus against previous year		Total state social insurance pensioners at end of year and governance stage		Plus pensioners against previous year	Official number of unemployed on Dec. 31 of each year	Peasants statte pensioners	col. 2 / col.11	Number of consumers of insurance funds (6+8+9)
		thou persons.	%	thou persons	thou persons	%	thou persons	thou persons	thou persons	thou persons		thou pers.
0	1	2	3	4	5	6	7	8	9	10	11	
0	1989	8.323,0	100,0	0,0	2.232,500	100,0	0,0	0,000	633,0	2,90	2.865,500	
1	1990	8.142,2	2,17	-180,8	2.492,643	11,65	260,143	0,000	1.007,0	2,33	3.499,643	
2	1991	7.483,5	-8,09	-658,7	2.940,736	17,98	448,093	337,400	1.016,0	1,67	4.294,136	
3	1992	6.627,4	-11,44	-856,1	3.123,644	6,22	182,908	929,019	999,0	1,31	5.051,663	
3 years balance sheet Legislature 1		minus 1.695,6	-20,37	minus 1.695,6	plus 891,144	39,92	plus 891,144	plus 929,019	plus 366,0	-	plus 2.186,163	
4	1993	6.385,3	-3,65	-242,1	3.174,128	1,62	50,484	1.164,705	1.139,0	1,16	5.477,833	
5	1994	6.201,0	-2,89	-184,3	3.358,924	5,82	184,796	1.223,925	1.478,0	1,02	6.060,849	
6	1995	6.048,0	-2,47	-153,0	3.518,932	4,76	160,008	998,432	1.587,0	0,99	6.104,364	
7	1996	5.894,0	-2,55	-154,0	3.793,600	7,81	274,668	657,564	1.623,4	0,97	6.074,564	
4 years balance sheet Legislature 2		minus 733,4	-11,07	minus 733,4	plus 669,956	21,44	plus 669,956	minus 271,455	plus 624,4	-	plus 1.022,901	
8	1997	5.399,0	-8,40	-495,0	3.844,000	1,33	50,400	881,435	1.667,8	0,84	6.393,235	
9	1998	5.182,0	-4,03	-217,0	3.983,000	3,62	139,000	1.025,056	1.691,0	0,77	6.699,056	
10	1999	4.659,0	-10,09	-523,0	4.137,000	3,87	154,000	1.130,296	1.729,0	0,67	6.996,296	
11	2000	4.646,0	-0,28	-13,0	4.311,000	4,21	174,000	1.007,100	1.760,0	0,66	7.078,100	
4 years balance sheet Legislature 3		minus 1.248,0	-21,17	minus 1.248,0	plus 517,400	13,68	plus 517,400	plus 349,536	plus 136,6	-	plus 1.003,536	
12	2001	4.613,0	-0,70	-33,0	4.496,000	0,29	185,000	826,932	1.746,0	0,63	7.068,932	
13	2002	4.615,0	+0,04	+2,0	4.554,000	0,29	58,000	760,600	1.638,0	0,62	6.952,600	
14	2003	4.655,0	+0,87	+40,0	4.587,000	0,72	33,000	658,900	1.556,0	0,64	6.801,900	
15	2004	4.652,7	-0,05	-2,3	4.608,087	0,46	21,087	557,900	1.441,5	0,70	6.607,487	
4 years balance sheet Legislature 4		plus 6,7	plus 5,78	plus 6,7	plus 297,087	6,89	plus 297,087	minus 449,200	minus 318,5	-	minus 470,613	
Difference 1989-2004		minus 3.670,3	minus 44,10	minus 3.670,3	plus 2.375,587	plus 106,4	plus 276,000	plus 557,900	plus 808,5	-	plus 3.741,987	

Source: 1.Col. 3, 6, 9, and 10, from INS monthly statistical bulletin for 1990-2004 period and NBR annual reports 2001-2005 period which brought corrections for figures reported since 1996. 2. D.Fota, How it is ruined a national economy, Editura Universitară, București, 2007.

When it is decided to close a factory of trucks (for instance) where work 10.000 employees, decidents of such a solution, should take into account that throw in misery or state maintenance other about 17.100 persons comprising the families of those employees (from the integrated survey of INS-Bucureși during 1999-2000), plus other 28.000 employees from enterprises who worked for the plant of trucks Brașov, or provide activities in other fields serving those 10.000 plus 17.000 persons from the first families! Or their amount represents 55.000 persons! From what money could the state support them during unemployment?



Liquidation of tens of industrial units sized as a plant with 10.000 employees, means 550.000 persons, and 20 units with the same size mean 1.1 milion people! For such effects, how it was possible to be bankrupted the plant in Brasov? It cannot be efficiency when inflation reached in Romania quotas and effects unknown for persons born since 1947, but a real act of naivty and ignorance from some of government members that administered the country since 1989!

Do you know any country which wants to develop economically and does not need trucks for transport? Or which uses for agricultural works donkey and cow milks instead of tractors? We import, will reply importers, but naïve people as well as persons who did not succeed to understand what is a national economy! With what will be paid these imports?

The only direct beneficiaries of a national income distribution, are employees and owners holders of production factors (labour force and capital). Usually, employees from a developed market economy, cash for about 40-45 years, about 70% of national income, and employer about 30%, except bank and insurance system, as well as roboted or automatic factories, where work consumption is reduced. After coming into force of European System of Accounts 1995, appeared another category of employees, who work in the public budgetary system, where, their institutions belong to the category of those who do not work for profit and so the state pay them by the system of subsidies for consumption, allocating them as salaries funds from the budget which are consumed and 100% for this purpose.

The rest of persons not included in these categories, cash income, only when receive a pension, unemployment benefit or social or unemployment allowance.

As except from general rule, it should be remarked that, employees and patronage in Romania that cash also national income distributed, pay for 10 years, the lowest direct taxes on income they receive (7.25% of GDP in 2008, plus HIC of 6.3%)! They pay the same indirect taxes on consumption, the same as other members of family who do not receive income. In other countries, among them Germany, for instance, 30% of total income of national budget in 1992, came from direct taxes on salaries!

Because during 19 years, Romania had no economic aim, as if it was a developed country economically such as France, United Kingdom or any other country EU member at end of 1993, we propose that absence of this aim, should be put on the non- recognition or wrong or incorrect impulse and advice.

### **Prejudices to national economy by unknown aims of the country governance**

Yearly economic growths cannot be considered an economic aim, but only a way to carry out an aim! Thus, the viewpoint regarding the interpretation of yearly growth, in 2008 supported by the government of Romania, was purely an act of naivty that does not serve but to disinformation, not to say it represents a bias of

public opinion attention from miserable reality economic polarization of the society, which was visible both in rural area and in the town periphery!

On the contrary, the same government of Romania adopted as aims during the last 20 years, several political targets which had nothing directly, with what it is called development of a national economy. Among them there were for instance: **(1)** receive from USA the most favored nation clause, **(2)** entering NATO, **(3)** no entry visas in Schengen space, **(4)** accession to European Union, **(5)** persuade others to build a pipe for petroleum transport to western Europe (on silk way) through Romanian territory and **(6)** launched in 2005, to be order in the Black Sea!

Among the „targets” at domestic level of Romanian post December governments, we consider to remind only those which brought prejudices to native economic units and to consumers, because they relied on economic and social non-fulfilment.

**(a)** Putting into practice of IMF measures, with their collateral effect which caused the disindustrialization of national economy and our country debt through imports of goods over the value of exports;

**(b)** Privatization of native producers, under the conditions in which production capacities existent on 01.01.1990 were less numerous to achieve the development by ten times more of the national economy to reach at level of western developed countries;

**(c)** Non liquidation of inflation in time determined:

**(c<sub>1</sub>)** Reduction of domestic consumption by lower purchasing power of salaries;

**(c<sub>2</sub>)** Uncontrolled growth of interests for credits which made credit more expensive and favored

the accumulation of benefits by bank system;

**(c<sub>3</sub>)** Impossibility of producers to survive under the conditions of inflation and very high interests for credits;

**(c<sub>4</sub>)** Accumulation of income to the budget by taxing of income increased by indexations as a result of inflation or salary rises under pressure of trade unions, helped the state to use taxing of inflation in order to collect the money needed to pay some external debts contracted since 1989;

**(d)** Forbid the initiative of some industrial producers to create their own credit institution, in order to finance investments and assure circulating funds needed to function the production capacities;

**(e)** Try to harmonize the prices on the domestic market with prices practiced by developed states, not taking into account that they reached at actual level after 40-50 years of development;

**(f)** More expensive costs of production by VAT compulsory introduction instead of tax on commodity circulation (which did not affect the producers but the consumers) or introduction of excise duties which increase the prices of products

or energy and fuel in order to grow directly the costs and value added (namely less and more expensive goods);

(g) Lower taxes for high and very high income, in order to create a category of „native capitalists” and increase in counterpart the indirect taxes to cover the Budget of income of the country, diminished by the two falls of taxes on high and very high income;

Domestic consumption which is the base of aggregated demand of a national economy. can increase only if it is stimulated. In such a situation, consumption of population households can grow only reducing indirect taxes, making possible to rise net income of population households and create a possibility of acces to consumption for population households with low income or households that live only from self consumption production. This measure is also applied when the economy functions and enters the stagnation or recession.

### **Compulsory conditions that should be assured by the government to relaunch the national economy**

In the market economy, invisible hand is to function only if there are production capacities, labour force and demands for consumption of goods and products. Only when all those exist, national economy starts to function automatically.

Each time when a government tries to relaunch the demand, it should think that can cause an aggravation of budgetary deficit, when its expenditure are not financed by growth of certain direct taxes (on high income, for instance). If it decides a lower taxing, as happened in Romania by introduction of unique quota of 16%, which is advantageous only for persons with high income and damages the budget and indirectly the size of salaries for most of budgetary staff who are not „chiefs”, governemtn had to compensate that amount (3.88% of GDP in case of unique quota) by a diminish of budgetary expenditure, such as reduction of higher salaries than a certain limit from public sectors, or renounce to some expenditure of capital planned for endowments or construction required by the army, police, justice, central and local administration, as well as usual or planned expenditure of the parliament, government and presidency.

In actual situation of national economy, the first measure starting the rehabilitation of national economy should be to remove the domestic causes that created this uncomfortable and unpleasant situation, this action should focus by turn on the following issues:

A- Balance of commercial exchanges abroad. All the payments of the state in the country will be done only in national currency. \Who needs foreign currency to export or to buy it from the market;

B- Forbid the financing in foreign currency from the budget and from the national bank of any investment or acquisition wanted by the producers, local administration and consumer inside the country;

C- Reorganize urgently agriculture by means of agriculture ministry staff that could be distributed to guide and supervise each commune or town, where there are agrarian lands;

D- Taking again by the state the financing of building up new capacities of industrial production.

Therefore, no houses, no roads, no advertisements of tourism, no small or big airplanes no repair and building churches or purchasing army planes, no change of face for the National Theatre in Bucharest, no sport halls and swimming basins, no football stadiums and no reductions of direct taxes on high income. Stop the expensive construction of highways such as Câmpina-Braşov VI avenue;

Balance of trade abroad is now the urgent number one of Romania (which can be put into practice only in stages) and can be done applying the following four measures:

**1- Forbid imports of goods and products which can be produced in the country too during two – three stages**, in order to favour the retake of native production in order to create new jobs and gradual stop of consumption of imported goods based on external credits which are to be returned with the contracted interests. Introduce into practice this first measure, pursues first of all to end the deficits of foreign trade amounting in the last 19 years, the astronomic sum of 142 billion USD and create jobs for unemployed (unemployment, young pensioners, persons sent to agriculture or left to work in other countries) that determined to fall the number of employees to about 50%.

**2- Forbid to purchase by means of go-between of any goods, products and native production or imported products, paid from the budget.**

**3- Include strictly imports in total sum of estimates procured by exports.** No institution or public authority (thus consumer of budget) should not be allowed to do imports through private institutions, but only through a firm belonging to the ministry of commerce with abroad whose staff should be paid from the budget and controlled by the government. What happened with endowments of police, of Nuclear-Electric, of imports of medical apparatus and computing technique for the government, public administrations, schools and so on, was theft according to the „law” done by corrupt or fool parliamentary! From now on, imports of the state firms (army, transport, etc) should have the government approval, which at its turn, should have an institution checking and putting down if that import is necessary, correct and convenient from price viewpoint, quality and service during guarantee period. In keeping with the mentalities of the last eight years, at least two legislatures from now on, Romania needs such regulations!

**4- Inventory of imports with external debts** and elaborate together with them a plan to reimburse the credits taken and pay the interests, including a supervision in order not to bankrupt meanwhile and liquidate the firms on whose behalf the credits were taken. Pay attention to this way out of business, used at wide extent in 2000! Institute for all those found in impossibility to pay, a levy on fortune, and if necessary, some severe penalties to discourage fraud and evasion plus privation of electoral rights and right to exercise any leading function or to have a firm in the next 8-10 years after the sanction execution.

Something more, state should have prepared exchange foreign currency in USD or euro, for those debtors to be able to pay their debt. In this issue, state through national bank play the role of prickle, and some debtors could prefer the role of cricket from the well known story „Cricket and prickle”!

This fourth restriction should regard both the economic units belonging to the state or public authorities and economic units from private sector.

Adopting these four measures will insatisfy the following categories of people and international institutions, whose accounts are mixed up: **1-** Importers; **2-** inhabitants that have a lot of money, are willing to buy expensive goods, luxury and unique ones; **3-** Exporters from abroad that loose a part of the market; **4-** World Trade Organization, which represents practically the interests of rich countries; **5-** International Monetary Fund, world body which takes care that countries which have credits, to return them because credit institutions should not loose. **6-** World Bank (gives credits so that countries should pay back at deadline, with interests of 14-18% per year and not 3-5%); **7-** some of old members of European Union.

### **How national economy rehabilitation should be thought**

The most surprising conclusion resulting from data analysis in the table 2 is to pursue the evolution of weight in GDP of economy sectors, and makes possible to be noticed and quafified the **degradation way in time of national economy**.

During 20 years, many Romanian politicians did not succeed to find out or to understand that the existence of a national economy is justified only if it fulfills the following three purposes:

- 1.** Produce goods and services of which inhabitants of a country need to live;
- 2.** Create inside it more and more jobs for active age inhabitants could carry out a useful and legal activity, to get income of which they can live together with their families;
- 3.** Give the possibility to the state to achieve its social tasks.

During 19 years, annual consumption on debt represented minim 5.37% in 1994 and 8.01% of total consumption in 1995, but increased to over 37% of total consumption in 2007 and 2008 (column 10 of table 2). Certainly, most of inhabitants had to consume food products that are not produced in Romania

anymore, but they could not take part in the consumption of imported luxury products meant for those persons and households, situated better in the society to get richer.

Because at values from column 10 should be added the values of annual budget deficit per total, size of consumption on debt in Romania was higher and higher. For instance, deficit of national budget for 2006 was -3.06%, for 2007 - 3.73% and for 2008 -3.92% of GDP. This means an annual consumption on debt of  $32.42\% + 3.06\% = 35.48\%$  in 2006,  $37.08\% + 3.73\% = 40.81\%$  in 2007 and  $37.20\% + 3.92\% = 41.12\%$  in 2008, if budgetary deficit is reported to Tăriceanu government, or higher if its size is that announced in 2009 by prime minister Boc. Encouragement of consumption on debt (namely on others money) of about 44% of GDP, created a very severe situation for the economy with consequences hard to forecast for many years ahead.

Instead of creating jobs in the country, Romanian governments supported in the last 19 years creation of jobs in the countries where we imported industrial goods, petroleum, natural gas, coal, paying those countries the value of imports of 430.501 billion USD during 19 years. At the same time, value of exports was only 288.453 billion USD, registering a deficit of foreign trade equal to 142.049 billion USD (of which 91.694 billion USD only in the four years during 2005-2008), plus interests to be paid for this sum.

External credits for these deficits, would have been necessary for Romania to purchase technologies and build new production capacities in industry and agriculture! In the first 15 years of total 19 years after the change, exports amounted to 142.535 billion USD, while imports were only 192.889 billion USD, causing a deficit during 15 years of 50.354 billion USD, and meant an average deficit of 3.357 billion USD per year, as against 22.923 billion USD/year average deficit in the last 4 years (2005-2008), anemly an annual consumption plus as against previous years, equal to 19.566 billion USD per year! In order to sell imported goods, it was necessary to stimulate demand, which was obtained by higher salaries and pensions with which, in local, parliamentary and presidential elections, some of candidates you already know were proud of!

Coming out of this crisis which is a created first of all by destruction of productive structure from commercial economy of the country, it is necessary to adopt and put into practice some series of measures which can contribute to the rehabilitation of national agriculture and industry, these measures being formulated and described in few chapters of the book „Complex measures to stop the crisis and solutions to rehabilitate the national economy” issued on June 18, 2010 under the aegis of the Academy of Scientists in Romania. Chapter 6 of this book includes 230 measures (majority set up by method of critical way or applied in time by developed countries), ordered within the following ten groups or categories.

- Measures to rehabilitate the state institutions;
- Measures of recredibility of financial-bank system;
- Measures of recredibility of national economy;
- Measures to improve macroeconomic organization and management;
- Measures to improve the right state;
- Measures and solutions to rehabilitate agriculture;
- Turning into account the country potential of natural resources;
- Measures to redress the native industry;
- Measures to improve the army;
- Improvement of trade union activity.