CONSUMPTION VERSUS ECONOMIC GROWTH?

CONSUM VERSUS CREŞTERE ECONOMICĂ?

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Abstract: *The opinions of the economist are divided both in what concern the opportunity to measure the increase of the salaries, and on how this can be done with minimum damage for the economy. This recipe with the increase of the salaries without economic foundation we saw before the crisis and it was seen in an economy with inflationary pressures and current account deficit, if we do not have an increase of productivity in economy to justify the salary increase, all will be brink up in inflationary pressures and current account deficit. The consumption will increase primarily in areas where we will have increase of production to exports, industrial production parts, services that which have market and gradually those in other sectors such as the budget.*

Key words*: economic growth, crisis, external deficits, consumption, current account*

INTRODUCTION

For 20 years Romania has an unbalanced economic growth, high demand, lower production, we do not have external deficits. Ann we don't foresee during the next 20 years to get at the surplus. We think it would be an unforgivable strategic mistake we would say a historic mistake to do what we did in the 70's and 80's. That in the 70's we also developed based on external resources in the 80's, we paid the external debt.

One of our opinions regarding the exit from the crisis is that Romanians must work if they want economic growth. In addition, the private entrepreneurs who are now simply suffocated by taxes should receive a breath of oxygen. And the economic growth is an abstract notion, for many people, it is easy to obtain when you know what you have to do.

So it should be done three things: one, to encourage work, two, to encourage work, three, to encourage work. If we do all this three things, we think we have a good chance o stimulate the consumption in order to have economic growth.

MATERIAL AND METHOD

The conclusions expressed in this paper are based on the fact that if we want to have economic growth, than this should be based on exports and not on consumption.

The research on this paper was done from many points of view, in which the conceptual methodological approach is correlated to the empirical studies and to a variety of references to practical action aiming actions the increase the economic growth, based on actual knowledge in the field.

RESULTS AND DISCUSSIONS

One of our opinions regarding the exit from the crisis is that Romanians must work if they want economic growth and as it is said the luck is made also by the determined people. In addition, the private entrepreneurs who are now simply suffocated by taxes should receive a breath of oxygen. And the economic growth is an abstract notion, for many people, it is easy to obtain when you know what you have to do.

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So the finance minister promised to reduce the taxes that companies have to pay for salaries. However, with a promise is not making spring, nor overcome the crisis.

But from the discussions of the BNR don't cast an evil eye any increase of salaries or pension.

Because of the taxes too high in Romania, about 1.7 million people work illegally. According to BNR specialists, in the next period they have a chance to higher salaries only the employees from the recovered fields: industry, exports and services.

But, from where the economic growth could come and under what conditions? It is a question we will try to respond as follows.

From where the economic growth may come, we would say that is also the case of Romania, from a kind of luck. We as economists know that economic growth is actually a synthetic product of labor growth, which produces (let's say so) and multiplied with the productivity. The formula

from the worldwide is the same. That behind each employee labor and productivity are dozens, hundreds, perhaps several hundreds of factors with regional, national specific and so it is. But in essence as we learned in school, national income results from this product, employee labor and productivity.

Of course, this is the part of the offer and the market economy must ensure the dissolution of this offer and then we have to stimulate the demand or to have necessary demand which can be on the internal or external plan depending on the manner in which the offer increases, on other worlds the production, the offer of goods and services, and on the other hand the demand, we have a more or less balanced economic growth. Rarely the two factors are combined and usually you have a surplus of production in regard to the internal absorption, to the internal demand, then you have an external surplus and a deficit (production less than demand), the difference of the deficit is covered from the outside from import.

On other words there is an indicator and we think we should start from it and here we parenthesize, you know that international formulas start right from the external balance, so there is this current account indicator.

For 20 years Romania has an unbalanced economic growth, high demand, lower production, we do not have external deficits. Ann we don't foresee during the next 20 years to get at the surplus. We think it would be an unforgivable strategic mistake we would say a historic mistake to do what we did in the 70's and 80's. That in the 70's we also developed based on external resources in the 80's we tighten our belt as a country to pay the foreign debt and this type of economic growth, this short cycle is not so feasible not politically or economically that is to say that any economy ca not have such a short cycle. 10 years to borrow, 10 years to pay back, that is to pass on surpluses. Likely we will come to cycle 30, 40 years; it is even about secular cycles. We can look at history. America was borrower 100 years until the World War I when it passed on position of international creditor, to give one example, but rather to dig up the judgments, we do not think the situation is comparable to our country.

If the perspective of the economic development is also an external resource namely with an external deficit and we must say from the beginning this, the problem is as big is this deficit and how we can make it sustainable, meaning from the moment when you depend on the financial resources and only the external one, all the economic growth depend only

on you and your partners. In other worlds on the other side. From now on we already speak, better said, introduce the notion of sustainable economic growth. It became obviously, the crises did not hurried up the process anymore, the 13-14% of the economic growth with external deficit as we had in 2007-2008, in other worlds one-seventh from every consumed unit came from the extern, we could not provide it from internal plan, it was not sustainable and to the question which sometime is bothering us obsessively why the recession was stronger in Romania is that the external financing restricted us to adapt ourselves, let's say to adjust, the demand with the internal absorption, which we could finance from the international plan.

Dramatic cases can happen, so now from the 2 years we can say that those who were involved in decisions in the fall of 2008 were advised of a sudden stop, is a pleonasm between and sudden and stop extremely somewhere a block of the external financing and then the correction would not have been from 14 to 6 %, it could have been from 14 to 0 and in this kind of situation of course that the tension could be deeper.

It is our duty to make these remarks and we do not insist that they may be necessarily taken into account but we want to express our point of view. We think not only not feasible but dangerous even the repetition almost obsessive of the fact that we do not have an economic growth because we do not stimulate the consumption. Well how to stimulate it if anyway we had a much higher consumption then 14%. We understand that through consumption this extrapolation, absorption, is bigger than the internal absorption. If we can stimulate it, we could stimulate it also in 2008 or that should be restricted for that the internal production, let's say like this, was far less than demand, than the consumption.

Stimulating the consumption in actual conditions means in general terms a return to in the current is in general terms a return to the deficit and the return to the same issue of sustainability. The question is if anyone will finance us from the extern for deficits higher than 8%?. We say 8% because our initial projection was related to this correction of about 12-14% to 8%. Correction less than actually happened. We lived and saw that we wanted to be lower a correction but it was bigger because these were the external factors.

We still insist on this equation that seems simple but is often forgotten and a because of a historical banking comparison about 4 centuries ago, the queen Elizabeth tried to grow over the pound. In the monetary

history it is said that a woman not a man, a lady not a gentleman was the person who changed the course of monetary history. Why for the currency erosion is not only the matter from when we do not have money for paper. It is from Romanians times. At that time the coins were physical blunt, they were pickled on the edge. Someone said that in the monetary history the knurlingof the coin, in the 17th century was one of the greatest discoveries that stopped this physical process of the currency erosion. In that period this is how the kings made, including Elizabeth's father. There were removed from circulation the coins like that of the old and it were producing and a smaller new one. The rest remained in the treasury, it was a resource for the kingdom, this is how all acted. Elisabeth wanted the same, she had the intuition that this process is devastating and she did a good thing and that is that she advised with her counsel, Gresham and she said to him a simple thing " do not you know that the poor currency roll out the goof currency?" And this thing remained in the monetary history as „The Gresham's Law". In the circulation move on beaten and damaged coins, the good one are hoarded. Everybody tries to keep its intrinsic value.

We made this incursion because we wanted to observe the application of the Gresham's Law in what concern the ideas, at least in Romania. Everything that means idea sometimes dangerous not to say bad very quickly gets success in political debate.

And this with the consumption, to stimulate consumption, to have and economic growth has, we can not to qualify as a bad idea but we cannot put it into practice because from when we will start it as a political idea and we can see that is shared by the political debate we think we will be charged from the outside. Now we got to breath in yogurt also but it is only my feeling.

Of course after we give this kind of assessment we cannot have an economic growth by overall stimulation of the consumption. We must go down. The consumption will grow. It is not possible not to grow after it was blossom a balanced economic growth. Some analysts speak with a dramatic note of pessimism about the fact that Romania will never have a balanced economic growth as well as in Romania, Romanians do not want to work. From our point of view we do not believe this is true. Romanians must be allowed and stimulated to work and to increase the production. The consumption will increase primarily in areas where we will have increase of production to exports, industrial production parts, services that which have

market and gradually those in other sectors such as the budget. To let go not the overall consumption and we know the overall consumption we know what we mean. For half a year the public debate is dominate but the budgetary salaries. Nobody speak about the exporter's salaries or the salaries from industry. The budgetary salaries are dominant. We are speaking about the increase of the consumption through the increase of the salaries this is where we go or the increase of the social consumption. But there would be worst to come back saying that is a dangerous thesis through the blossom of the economic growth from Romania because we realize that it have a political and social base.

And because we brought it about the politics, we want to say that in Romania there are 5 million pensioners. Political parties will fight for winning the elections and we have only 4 million employee people.

The opinions of the economist are divided, both in what concern the opportunity to measure the increase of the salaries, and on how this can be done with minimum damage for the economy.

This recipe with the increase of the salaries without economic foundation we saw before the crisis and it was seen in an economy with inflationary pressures and current account deficit, if we do not have an increase of productivity in economy to justify the salary increase, all will be brink up in inflationary pressures and current account deficit.

Also the president of the Fiscal Council compare the invoked solution by the government and that is to increase salaries without increasing productivity with a possible mechanism of perpetuum mobile, which operates using the same energy that also produces itself by operating.

It is an absolutely absurd thing – the salaries increase to get me up the consumption and so I'm going have also higher revenues to the budget. Well the economy is perpetuum mobile? Then, we should only increase budget expenditure and they are self-financed - but this has never been heard before. Higher salaries must be the result of an economy better form. Solid base for the salaries increase is the increase of the productivity. If the economy grows more and better, you have the base to increase the salaries, not vice versa. So the argument to increase the salaries to have consumption is simply absurd in my point of view.

According to the calculations, the integral salary recovery for budgetary, from June 2012 (means an extra 16% from the current levels) would require a budgetary effect of over 2 billion lei only this year, with no

guarantee that money will return the economy. It's a large sum, is 0.3-0.4% of the GDP of year. Once per year we discuss about a double amount. It seems to me that the impact is more than significant.

Certainly there have been made some savings in salaries bill of the budgetary sector by reducing staff. Maintaining the rule of the employment of a person to 7 released jobs makes economies, but not so high that you can accommodate an increase of 15-16% without taking money from elsewhere, and elsewhere from where can you take?

From higher deficit, which is debatable whether or not we can afford, or from another area of spending, is what we seem a little inappropriate. To reduce investment and to increase salaries we do not know how healthy it is.

The discussions are now held referring to the increase of budgetary salaries from the first of June, beyond the fact that is a reunification not growing, by those agreed with the IMF, and should be viewed in this light: is there a competitive production of goods and services with high productivity, which justify it? Definitely not, since we borrow fabulous amounts to support what we have now to pay for pensions and salaries.

The increase of the consumption results from the increased income of the population. Income growth, on its in turn, may have as a source: a production of marketable goods and services and high added value, loans, considerable natural reserves (for example oil or gas deposits), printing of money.

It is clear as daylight that only the primary source of revenue growth is reasonable. The rest are economic illusions which sooner or later go into the abyss.

Loans cannot work forever, printing money no whit, conjectural sources disappear at a time and must take back the salaries and pensions that you gave it and how will this be possible??

Our conclusion is that if we want to have economic growth, than this should be based on exports, to be sustainable, and not based on consumption.

CONCLUSIONS

The opinions of the economist are divided; both in what concern the opportunity to measure the increase of the salaries, and on how this can be done with minimum damage for the economy.

Solid base for the salaries increase is the increase of the productivity. If the economy grows more and better, you have the base to increase the salaries, not vice versa. So the argument to increase the salaries to have consumption is simply absurd in our point of view.

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