

MEASURES FOR THE RE-LAUNCHING OF THE ROMANIAN ECONOMY IN THE CONTEXT OF THE WORLD ECONOMIC CRISIS

PhD. Student **Claudia Loredana JUNCU**

ABSTRACT

The re-launching of the Romanian economy in the context of the world economic crisis can be implemented by using a set of principles and economic measures that will lead to a strict monetary policy, a fiscal and budgetary discipline as well as a reduction of the inflation.

This paper presents a series of reforms that Romania needs in the present context, to start the process of re-launching the economy that is currently in a significant descending trend. It is necessary that all the economic and political actors participate actively in progressively meeting the competitive conditions of the Comunitary economies.

Corrective, stimulating and functional measures need to be undertaken to permit the applicability towards all the actors that define the structure of the economic environment. The application and enforcement of the needed anti-crisis measures will determine a stop of the decline and the creation of the premises to economical re-launching.

KEYWORDS: *Crisis, economy, growth, budget, taxation*

Introduction

In pre-modern era, the economic crises were less visible. Together with the global capitalism, the economic crises have become a problem not just for the national political elite, but an international or global problem.

The economic crisis that Romania is passing now is comparable with the Great Depression from 1929-1933, but we appreciate that from that time until today, the way of managing the international economic crisis has progressed. If in 1929 "the only way to solve the problem of agricultural dept was the conversion"¹, in 2009 the solutions to overcome the crisis that our country is facing are more complex.

Our country is having a difficult time in managing the crisis since, as expected, the costs are affecting more the weaker players. The influences of economic crisis are already visible in multiple fields: unemployment, inflation, stagnant investment.

But we have to add that the effects of the crises can be very diverse including problems in the cooperation with the EU member states. One of those effects is connected with the Romanian workers on the EU labour market that may lose their jobs and start coming back, creating an influx of population and reflux of money, which may generate additional problems for the local economy.

¹ Maria Muresan, Dumitru Muresan – *Istoria economiei*, Editura Economica, Bucuresti, 2003, p. 254

Many economic commentators identify the location of the cause of the crisis in the United States because it is estimated that all crises are triggered also by some flammable nonfinancial factors such as terrorism, guerrillas, secession, coups, military intervention.

The recent decade's historical experience demonstrates that the sources of conflict have not disappeared and will not disappear entirely, many of the disputes between nations taking open forms with serious consequences for the moment and for the foreseeable future.

We believe that the problematic of the crisis is vast and complex, many issues will probably remain unclear, and therefore without trying to fill all the domains related with it, we will try to focus on some economic and financial solutions to address the crisis.

Possible anti-crisis measures

The first question was if we have a generalized crisis or not? And if there is this crisis, how can the Government manage it?

On the one hand we can say that yes, there is a clear crisis because a certain segment of the population is doing noticeably worse than in the same period last year and the decline in the living standards in this segment was generated largely by job loss or wage reduction.

On the other hand, it promotes the idea of growing the resources for investment, meaning the valve opening for a certain segment of investors, also the allocation of state aid using the model of "the first house", which in practice proves to be a measure with limited audience. It is specifically for a certain segment of customers with high and very high income, so the vast majority of those interested have not the slightest chance to get access to such acquisition.

However, in November 2008, the World Bank president Robert Zoelick, warned at a conference held in Paris, that: "It all started with a financial crisis, it attended an economic and, in the coming months, will follow a jobs crisis. Because of the economic slowdown, the unemployment will grow and this will further increase the crisis of food and fuel"¹.

In order to discuss the anti-crisis measures we have to identify the true causes of the situation that crosses the current global society.

This financial block was built on major behavioural slippages of the individuals. Many of us have "pawned the future" with costs that they could not bear. For all goods purchased over time with "other people's money" individuals pay a much higher price than the true value. The return to a normal and stable situation would be that each of us to make a clear analysis of the real financial possibilities and give more importance to personal budgets.

Thus, it is important to enforce measures to reduce the current crisis and to result in the re-launching of the Romanian economy, and on the same time to address the cultural and educational problem of individual responsibility:

- reduction for a period of at least couple of years of the flat tax to 10%, so that we integrate into the trend of the region (Bulgaria, Macedonia). This could bring more money to the budget and should let the real economy to breathe. We believe that a smaller tax rate leads to a better collection, to increase the tax base and reduce the incentive for fraud. The increase in general taxes simply diversifies the methods of tax evasion;
- reduction in VAT for a limited period also to 15%;
- a reduction of the salary contributions under 50%, given the fact that right now they are rapidly approaching the 60% which means a burden on companies that instead of

¹ Robert Zoelick President of the World Bank, cited by *Evenimentul Zilei*, 22 November 2008

going on a policy of recruiting manpower are limited or even worse, restructures the work. This means increasing the number of unemployed and this high level of contributions is simply stimulating the black market;

- quarterly-pay all taxes and fees;
- an alternative would be to defer the payment of taxes for a limited time;
- reducing state spending. Tax relief will boost economic growth and this could mean, on a medium term, an increase of the degree of prosperity of the entire society, but correlated with a reduction in state spending;
- avoid overregulation. We believe that there is no need for complicated decisions or laws, they should be simple and respect the principle of equality of treatment;
- reforming the social protection system by ensuring the access for all citizens at the basic goods like: home, meals, clothes, shoes and a minimum level of education;
- limiting the number of taxes. The number of charges and taxes in Romania is high and most of the times it is just more efficient to cut it down;
- the abolition of some national administrative structures and the replacement with state departments that work on programs;
- attracting specialists in project management to work on projects to ensure a good use of the non-reimbursable funds;
- strategies and policies to attract Romanian youngsters that have completed their studies abroad;
- awarding public contracts more transparent;
- -executing public works quickly and in public-private partnership;
- investments in infrastructure. For the Romanian companies awarded contracts it is important to use preponderantly Romanian workforce;
- responsibility of the individual. The exacerbated individual needs deepen the crisis. We then speak of an individual crisis, which very often deepens the global one;
- long-term plans and visions of decision-makers;
- reducing taxation and the equality of treatment for every taxpayer, the elimination of tax uncertainty, the constant tax changes during this year;
- tax reductions for early payment.

The anti-crisis measures in Romania have to manage its effects and not a generic crisis. This means that program and the conditions imposed by the IMF under the loan agreement, should be adapted to the Romanian economy, so that it reduces the possible adverse effects.

Romania currently has one very important commitment, namely the euro zone access in 2014. It would be an error that the anti-crisis measures restrict this objective. Romania's openness to the European Communities, with traditional links as being "the first and only country in Eastern Europe, since the early 70s, that had a clear legal framework in the relations with the EEC, and in 1980 proceeded to de facto recognition of the economic groups by signing the Agreement on creation Romania-EC Joint Commission"¹ should help us to focus the strategy of crisis management on the philosophy of the euro zone.

Romania needs to fit the European anti-crisis measures. Thus, the actions taken nationally need to be convergent with those taken in other member states so that there are not any negative effects of the measures of one state over another member state of the EU or over the community economic space as a whole.

¹ Maria Muresan – *Europa si noi - Studii de istoria economiei*, Editura ASE, 2005, p.191.

It is good to know that in the new global context, "the one of the globalization of capital, the firms follow not only the achievement of optimum size, but they focus attention on strengthening of the global production networks also"¹.

The *re-launching* of the economic growth should remain the fundamental objective of governmental anti-crisis decisions.

The only way the negative effects of the crisis will be turned into opportunities is the re-lunching of the economic growth by increasing domestic supply. The Romanian decision makers have a heavy task; they need to achieve a structural reform of the state and a real economic and fiscal relaxation.

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¹ Ion A. Popescu, Aurelian A. Bondrea, Madalina I. Constantinescu – *Globalizarea-mit si realitate*, Editura Economica, Bucuresti, 2004, p.271