

THE NECESSITY OF CONVERGING ROMANIA TO AN EFFICIENT ECONOMIC MODEL

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Abstract: Romania faces three main challenges over the medium - and long-term to assure sustainable economic growth: First, policies must be put in place to assure the resolution of the macroeconomic imbalances generated in the run-up to the crisis. Second, as with other new member states of the EU, Romania has the medium-term objective of accession to the euro area which requires nominal convergence to the Maastricht criteria. Third, nominal convergence should be coupled with real convergence - that is to say sustainable growth to bring Romanian living standards more into line with EU averages. For both nominal and real convergence, Romania must improve the flexibility of the economy and increase its potential growth rate through structural reforms in labor, product, and investment markets, and increase investment - particularly in infrastructure.

Keywords: Romanian economy, European social model, welfare state, workfare state.

Currently, the state's role in the economy is seen piecemeal, being reported on the types of businesses that it assists or with which it develops partnerships. Also, the state influences the economic and social conditions through the legal system, through measures that promote attitudes and systemic behaviors throughout the local society. The state is directly involved in carrying out welfare society, looking at this issue in light of factors welfare advocates, namely endowment with production factors, access to education, legal system that promotes the right to work, investment in infrastructure to accelerate the compatibility of economies, aiming at creating alternative jobs but moving to a higher stage of development in line with sustainable development.

Nation state has to create a holistic framework by which to address the following needs:

- sovereignty in relation to other states to ensure that: territorial security of citizens, food security, defense;
- welfare of citizens through sound economic management and political resources to drive economic process as a whole;
- efficient use of conventional economic resources and increase of the economic process attracting unconventional economic resources;
- support and protection of the economic system to avoid any threat to the economic and social development of the country.

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From this perspective, Romania is on a European path littered with many failures in social and especially economic, located at the confluence of business practices (they call it practice because they can not be treated as mere economic models that were not defined or completed a paradigm) which has the advantage of a unified vision on market. Thus, influences that are felt in the Romanian economic area take priority over the pursuit of some strategic or not interests, coming on Russian succession (such as the perpetuation of a monopoly position on energy resources), American (different positions considering the national security policy) Western Europe (focusing on real estate investments in strategic areas and due to lower unit costs times or to obtain tax breaks), or the development of some communities well-rooted in the public and Romanian business, of various nationalities (Arabic, Chinese) contributing to the crystallization characteristics specific to the Romanian market (economy): distinguishing between business environments in accordance with specific and particular interests by creating well organized business castes, relatively independent, low interest for community from the social and popular point of view, low interest for nation and nationality expressed by the lack of actions regarding infrastructure, modernization of the countries and rural environment, increase of the level of comfort of the population, concern for Romanian values, culture and culture personalities.

The economic model needs to capture the specificity of the Romanian space and its citizens. Cultural, social and economic faults existing in Romania lead to finding a common denominator that does not gauge, but on the contrary, highlight elements of specificity. Nevertheless, there is a need for a common event in terms of national interests, combined with the interests of the great European family which our country joined.

The socio-economic model of development which would be applicable in Romania is the European social model, in general. The latter promotes an integrated growth that is based on research and innovation, the effective use of resources and their preservation, the stimulation level of labor employment.

The European social model represent more than a model of social policy, making references to certain characteristics of the state, economy and society. The term of "European Social Model" (ESM) was coined by Jacques Delors in the mid of the 90s², to define an alternative for the American form of market capitalism. The fundamental idea of ESM is that the economic and social progress must synchronize together, respectively; the economic growth should mix with social cohesion. The European social model – characterized particularly by a system that offers an increased level of social protection, such as the importance of social dialogue and general services covering the vital activities for social cohesion- is based in spite of the diversity of social systems of the Member States– on a *shared value framework*³.

A *new approach of MSE* promotes the idea of social productive policy applied to different social models of Europe¹, that promote flexicurity¹,

¹ Maria Jepsen, Amparo S.Pascual, „*The European Social Model: an exercise in deconstruction*”, p. 6, 2005.

¹ Conclusions of the European Council Presidency from Nisa, December 2000, Anex 1, European Social Agenda, §11.

¹ Hay, Watson, Wincot, 1999.

partnership, labour force attraction etc. Such a concept involves the orientation of social policies rather than encouraging the individual's capacity of survival within an economy more and more dynamic, than using this capacity to correct market forces.

Rather than a market correction, the social policy in this new discourse becomes European optimization tool for adapting the social protection system to market forces. This new approach to ESM starts from the idea of a European political project aimed at building a European identity, not through both institutions and shared values, but more precisely through the very common social policy solutions.

Once the economic constraints become more obvious, adaptation to a new model of capitalism is required - favourable to business and innovation. The main idea is that solidarity has been institutionalized so much desire that reduces people's desire to adapt their behaviour to economic requirements. In this respect it must shift from passive support to the active involvement of people in the modernizing process of society. The role of institutions in this context is to provide tools (ability to attract workforce to the labour market, flexicurity), allowing individuals to find ways to adapt to changing economic and social conditions.

More and more professionals agree with replacing the exact rules with various post-regulatory instruments, in order to cope with the variety and complexity of the dynamics of post-modern society. An example - that is popular - is a new approach to the problems of European Society, by the means of the Open Method of Coordination. This is the "soft " regulatory model to coordinate policies on labour, pension and health by the EU institutions which make use of a flexible framework rather than by" a rigid mandatory system", as a manifestation of industrial relations Europeanization².

In this context, it is necessary to emphasis that ESM has achieved a new phase of development, namely, from „welfare” to „workfare”. To make the distinction between the two concepts, one should mention that „welfare” means protection against risk, in this system following to assure the resources that guarantee security and stability. As for „workfare”, the focus is on providing instruments to individuals to be able to face up risks³.

Among all these approaches of ESM model, there is another one in accordance with which, the European discourse is based on a *Model of the*

¹ Notion of flexicurity is meant to mediate between employer's requirements and employee's needs, flexibility and security. It would thus ensure safe adaptation of workers to the labour market, achieved while maintaining and improving enterprises competitiveness, but also for maintaining the European social model. Measures taken in the European strategy for employment, including encouraging lifelong learning, improving support for those who seek employment, promoting equal opportunities for all and equality between women and men are measures that contribute to the development of flexicurity. Commission defined, both at the level of the Member States and in cooperation with academic environment, with social partners and international organizations, several pathways and common principles for flexicurity insurance.

² Keith Sisson și Paul Marginson 'Soft Regulation' - Travesty of the Real Thing or New Dimension? (2001).

³ Maria Jepsen, A.S. Pascual, „*The European Social Model: an exercise in deconstruction*”, p. 15, 2005.

European Society or, in other words, expressed, as a *socio-economic model*, as long as both models and reforms concern not only social but also regulating aspects, incentives and innovation system. The authors of such an approach understand by socio-economic model – *society responsibility for individual's welfare*¹. The three characteristics – responsibility, adjustment and retribution – reflect the fact that the European Model is more than a strictly social model. At the economic scale, Europe tries to combine the dynamics of market economy increase by coordinating the social dialogue between collective partners. State-wide, European countries are not only free democrats but also redistribution states, ie welfare states, which tries to help disadvantaged people - who have lost the ability to work, for various reasons: illness, unemployment, etc.. Society-wide, besides offering individual opportunities to accomplish (happiness), the European societies promote solidarity between individuals that thus, foster social cohesion. The core of European goals (according to many experts demonstrating the superiority of European society itself) was emphasized by Anthony Giddens (2005), when he stated that "European social model combining social justice with economic dynamics"².

With globalization, one can not but speak of the absolute virtues of the European social model. Thus, there are a number of specialists even question the reality contests or European social model (Marzinotto, 2006). But despite these, the European social model exists in various forms, and seeks new ways of expression. Although considering what is understood today by the European social model, social systems differ rather widely in terms of structure and volume of social expenditure but also transfers of income target groups, however we can talk about coexistence of four distinct groups of countries with relatively similar social practices (Ferrera, 1998, Bertoli et al., 2001) presentation justifying the economic literature following European Society Models³:

- *Scandinavian model, often also called the Nordic model* defined by the experiences of Denmark, Finland, Sweden, countries that carry the highest relative costs and granted social benefits according to the citizenship principle. They also practice public charges relatively high and use a wide variety of tools and active social policies;

- *Anglo-Saxon model or Liberal Model*, found in Great Britain and Ireland, that chose *Beveridge*, according to which social transfers are employee-oriented (active age), who earn relatively small incomes; this system is completed by a ultimate social resort web, under the form of a scheme of relatively developed social assistance; it is about a liberal approach of welfare, a minimum social model practiced by Great Britain and Ireland, an partially by Italy (that traditionally is part of the Mediterranean model), Slovakia and Estonia;

¹ Karl Aiginger, Alois Guger, „*The Ability to Adapt: Why It Differs between the Scandinavian and Continental European Models*”, *Intereconomics*, January/February 2006, p. 14.

² Jens Alber, „*The European Social Model and the USA*”, Working Paper, pag. 2.

³ Classification done in 1990 by Esping-Andersen in „*Three Worlds of Welfare Capitalism*” (Princeton University Press), according to the three types of welfare capitalism. This classification acquired new interpretations. For example, during the process of “*new comers in EU*” maturity, the group of the Mediterranean countries acceded the E.U. as well as the group of the states that joined the E.U. in 2004, the so-called „*catching-up*” group (Scandinavian, continental and Anglo-Saxon)

- *Continental model* – also known as *Corporatist Model* or *Renan Model*, practiced by Austria, Belgium, France, Germany, that adopted Bismarck model, based extensively on social assurances schemes, financed through the contributions of those who are employed and who performed a strong social protection; among the new members of EU, embracing the new and «strong European Social Model», there are Hungary, Czech Republic or Poland;

- *Mediterranean Model*, practiced by South-European - Greece, Italy, Spain, Portugal, that a model based extensively on social assurance systems, in accordance to which the benefits are largely segmented following the contributor's status. In these countries, there are applied decreased social expenditures with support networks obtained through family. Experts consider that this thing is possible as a result of embracing agricultural characteristics in this part of Europe.

- Holland and Luxembourg do not belong to any of the groups mentioned above. Thus, as for Holland, there is no unanimous opinion in the comparative literature on the welfare regarding the placement of the country into a certain group; there are a series of authors that consider that Holland– as a representative of Social- democracy – would rather situate in the Scandinavian state type of welfare. (for example: Goodin, Heady, Muffels, Dirven 1999, Sapir 2005) while the others consider that Holland is a representative of Christian democracy, thus, corresponding to the model of the continental welfare state (van Kersbergen 1995; Hay 2006), which is quite similar for Slovenia, too.

Luxembourg was not affiliated, by most analysts, to the family continental welfare states, because of its role as European Centre of adopting policies and financial transactions, which gave the country a particularly dynamic growth that could be loaned to any other nation and which does not provide conclusive comparative data even with a European average due to reduced territorial scale.

- *The model «catching-up»* refers to the characteristic of the new EU member states that acceded after 2004. In these countries, the social institutions were set up after the period of transition. The efforts of these countries to achieve social welfare stumble over financial difficulties which does not prevent them from aspiring to a new standard of living of EU members (catching up), through different methods (for example, foreign investments). It is these efforts that generated the «catching-up»model.

Additional to the European Social Model, The European Union initiated a so called strategy *Europe 2020*¹ to highlight the need of cooperation and coordination between the member states under the circumstances of an increased interdependence and some conflicts between the EU members. The Commission set up five reference indicators that the EU states must implement.

The stake of *Europe 2020 Strategy* is concerned with what should be done to reinvent the EU economy on the upward slope of the economic cycle. The current economic crisis has identified basic problems of market-state relationship implying the lack of coordination between the economic policies to promote sustainable economic growth and development. *2020 Strategy* enforces the

¹ Europe 2020: a new economic strategy, http://ec.europa.eu/eu2020/index_en.htm

Lisbon strategy and aims to recover Europe from the crisis and to prepare the EU economy for the next decade in order to cope with global competition and “be a stakeholder”.

The European Commission document underlines the need for coordination and cooperation between Member States, while the EU economies are highly interdependent. Thus, Commission identified three main domains as the pillars of the European policies:

- Intelligent economic growth – the development of an economy based on knowledge and innovation
- Durable economic growth – promotion of a competitive economy, with low carbon and efficient use of resources
- Inclusive economic growth – promotion of an economy with high rate of employment, generating social and territorial cohesion.

To measure these large objectives, the Commission set up five indicators of reference at the EU level, that should be followed by the member states:

1. 75% of population between 20-64 must be employed.
2. 3% of the EU GDP must be invested in research and development.
3. The climate and energetic objectives „20/20/20” should be accomplished - reducing carbon dioxide emissions by 20% unlike 1990, 20% lower energetic consumption and 20% energy should be produced by regenerative resources.
4. The share of early school leavers should be less than 10%, and at least 40% of young generation should be graduates.
5. The number of individuals in prone of poverty should be reduced by 20 million.

The commission suggests pilot initiatives¹ that become a priority for the EU organizations, for the member states, local and regional authorities. Thus:

- A union of innovation – reorientation of research and development and the policy of innovation towards major challenges, reducing at the same time the distance between science and market launch so that the inventions may be turned into products. For example, **communitarian patent** could allow enterprises to save 289 million euro every year.

- Youth in action – high quality and attraction of the European system of higher education, by promoting students’ and young professionalists’ mobility. As concrete action, *vacant job positions should be more accessible at the level of Europe, and professional activities and experience should be properly recognized.*

- A digital agenda for Europe – assuring some durable economic and social advantages through a unique digital market based on ultra-fast internet; *all Europeans should have access to high speed internet up to 2013.*

- A Europe using efficiently its resources – supporting transition towards an economy that uses efficiently the resources, with reduced carbon emissions. Europe should maintain its objectives 2020 regarding energy production and consumption and energetic efficiency. This thing *would reduce by 60 billion euro the petrol and gas imports till 2020.*

¹ Europe 2020: a new economic strategy, http://ec.europa.eu/eu2020/index_en.htm

- An industrial policy for green growth - supporting the competitiveness of EU industrial base in the world after the crisis, by promoting entrepreneurship and developing new skills. *This would create millions of new jobs.*

- An agenda for new skills and jobs - creating conditions for the modernization of labor markets in order to increase employment rate and ensure the sustainability of our social models, under the circumstances of baby-boom generation's retirement.

- The European Platform against poverty - to ensure economic, social and territorial cohesion, helping the poor and socially excluded individuals and allowing them to play an active role in society.

The European Union through its economic policies and strategies seeks to create opportunities for long-term development, ignoring the current economic and social constraints, manifested in a wide range of countries with a tradition on market economy. Besides the common efforts of preventing the socio-economic difficulties in these countries (Greece, Spain, Portugal where the unemployment rate reached alarming rates and the depreciation of purchasing power warns producers, financial markets) it is also of great importance to focus on increase concentration and development by initiating economic activities that are meant to regulate the consumption of resources, the exploitation of the energetic potential of regenerative resources, both to create new jobs and to decrease energy imports, respectively reducing energetic dependency on external resources.

The European Union is facing up some manifestations of forces considering the following ones:

- ✓ weakening of overall economic strength, caused by severe economic recession that followed the global financial crisis, characterized by large protests, strikes and street demonstrations as a result of massive layoffs;

- ✓ absence of a convergent will to support those economies severely affected by the recession as a result of intensifying the effect of preserving the crisis-affected economies but, through concerted efforts and effective measures and consistent economic policy, managed to stabilize the economically;

- ✓ high incidence of political factor in support of priority sectors of the European economy amid falling demand;

- ✓ intensifying global economic competition between poles, which increased interest in shaping the growth and development strategies on medium and long term to reduce the gaps, particularly regarding areas such as education, research and innovation;

- ✓ shaping a new balance of power between state and market, in terms of etatism efforts to support growth and development, due to increasing public investment.

Amid these realities, the European Union is focused, as indicated Europe 2020 Strategy, the establishment or the recalibration of some action directions considered as necessary and appropriate.

In this context, Romania needs the force and intelligence to attract the European entrepreneur through development opportunities in fields with an emphases relative advantage for Romania: agriculture, handicrafts and cottage

industries, domestic industries with powerful, natural and ethnographic echoes, tourism, services. To implement a development strategy in Romania meant to foster the inclination to invest the business community, the state must focus on the economic system as a whole through legislative, social and economic measures that should contribute to delivering positive results based on cooperation, competition, innovation and ultimately, prosperity.

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