

## SOCIAL LIMITS OF THE ROMANIAN ECONOMICAL GROWTH

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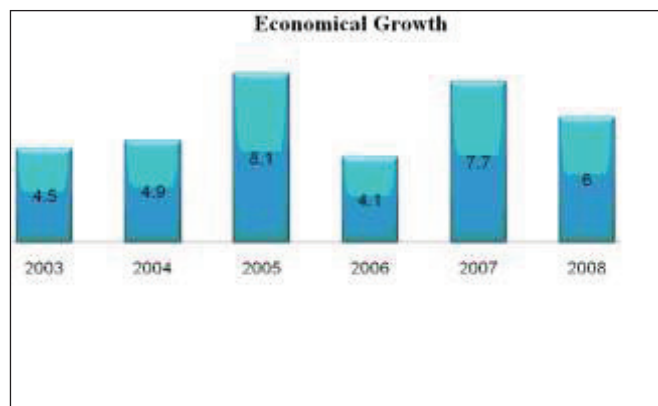
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*The phenomena and processes from the economical life have evolved with intensity and different results, determining the necessity of knowing the way in which the national economy evolves, as well as its dynamic approach. The existence and the dynamics of a society cannot be apart from the central point of the economical system and its role in enlisting the economy of the growth and development trajectory.*

*Key words: Romania, economical growth, corruption index, poverty*

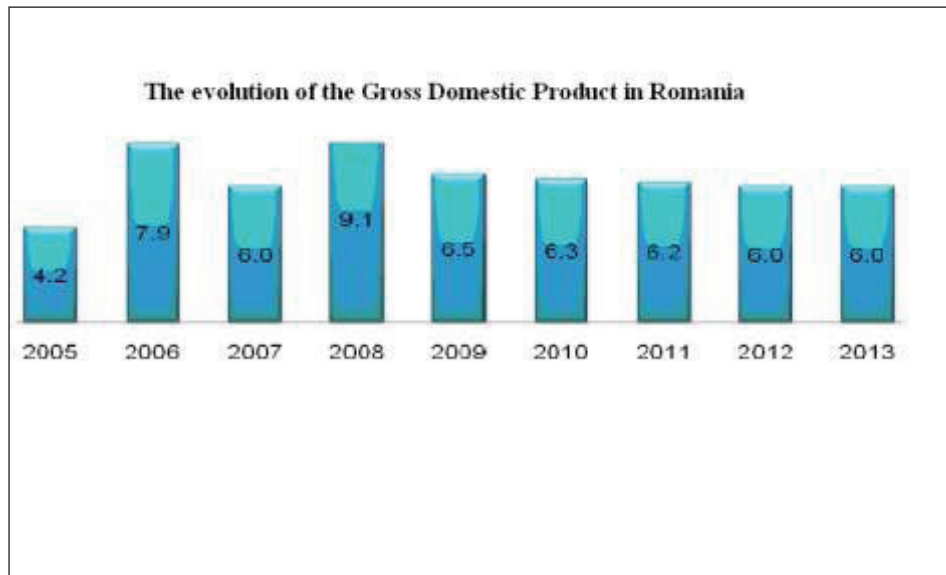
*JEL code: E60, O47*

Any social production has as finality the satisfaction of the society's need and of its members. Starting from this, presents importance the appreciation of the economic dimension of the activity's results and their quantification through the systems of indicators proper to different levels of macro economic aggregation, either on the material flows line, or on that of the monetary flows.



Source: [http://indexmundi.com/romania/gdp\\_per\\_capita\\_\(ppp\).html](http://indexmundi.com/romania/gdp_per_capita_(ppp).html) visited on the 25.04.09

According to statistics Romania should be registering in 2009 a growth of 6.5%. In reality, Romania will have an economical growth of 1% - 2% in 2009, in the conditions of the present economical crisis. The elements that determine these results beside the apparition of the number will try to illustrate in this paper.



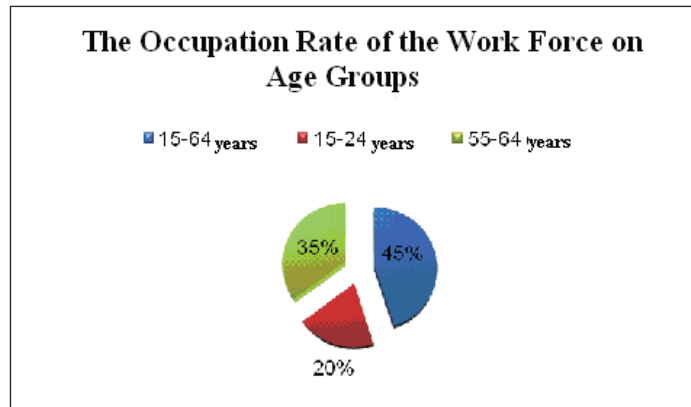
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*Social aspects* of the economical growth can be observed by double entendre in respect with the relationship between populations – economy. The society’s work resources are connected to the population’s size and its structure on age groups and, hereby, for the economical growth presents a major importance the dimension of the available active population that determines the economical growth’s potential in respect with the work factor. In so far as the productive system has the capacity to use this segment of the work resources determines the quantity of the economic activity’s results, and also of the occupation degree augmentation. The material aspect of the economical growth can influence the degree in which the possibility to invest in the productive system increases, meaning the creation of new jobs. The augmentation of the occupation degree also signifies larger incomes. In this manner it is reached another level of the population – economy relationship, that is the extent in which the economical growth it is capable in determining a certain living standard, a certain degree of satisfying the needs.<sup>206</sup>

Romania’s active population was, at the end of the third trimester in 2006, of 10,386 millions of people. The occupation rate of the population able to work (15 – 64 years old) was of 60,9% in the third trimester of 2006, for men this being of 66,7%, and for women of 55,2%. Young people with ages between 15 and 24 hold a percentage of 26,4% from the occupied population, while older people (55 – 64 years old) hold a percentage of 47,7%.<sup>207</sup>

206 Alexandrina Duță, Nicoleta Sîrghi, Adina Popovici, “Creștere și eficiență la nivel macroeconomic” pag 93. <http://www.ectap.ro/articole/127.pdf> visited on the 26.04.09

207 <http://www.infonews.ro/article57991.html> visited on the 27.04.09

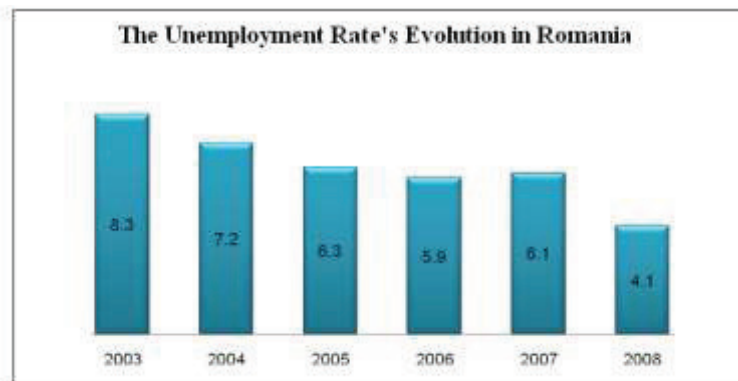


Source: <http://www.infonews.ro/article57991.html> visited on the 27.04.09

Employees continue to be in power of the largest weight, of 65,5% from the occupied population's total. Unremunerated freelancers and family workers represented, in the third trimester of 2006, 32,9% from the occupied population.<sup>208</sup>

Romania's demographical data follow the global tendency of ageing of the population, this thing being more pronounced in developed economies. In this manner, in our country, the weight of the old population is greater, in conditions in which the number of deceases is still greater than that of births. Since 2002 the country's population decreased with approximately 200.000 persons, at 21.658.000, in present.<sup>209</sup>

Romania lost a quarter of the country's active population in 2008, and this fact will affect the economy. The domains in which a massive migration of the workforce is manifested are health, education and research. The workforce's migration, associated with the abatement of births, will have a negative impact on the economy, on a long term, through the deceleration of the economical growth.<sup>210</sup>



Source: [http://indexmundi.com/romania/unemployment\\_rate.html](http://indexmundi.com/romania/unemployment_rate.html) visited on the 25.04.09

**The absolute poverty rate** in Romania is especially high in confront with the European context, being comparable with some countries from the former Soviet Union, this indicator reaching 22%

208 <http://www.infonews.ro/article57991.html> vizitat in data de 27.04.09

209 [http://www.infonews.ro/art\\_8874\\_-Populatia\\_Romaniei\\_a\\_scazut\\_la\\_216\\_milioane.html](http://www.infonews.ro/art_8874_-Populatia_Romaniei_a_scazut_la_216_milioane.html)

210 [http://www.euractiv.ro/uniunea-europeana/articles%7CdisplayArticle/articleID\\_14894/](http://www.euractiv.ro/uniunea-europeana/articles%7CdisplayArticle/articleID_14894/)

in the rural area in comparison with 7% of the urban population, and related to the regions, registering 35% in Moldova towards 10% in the Capital<sup>211</sup>.

Romania reached, in 2006, the point of three million persons in absolute poverty, towards eight million persons, in 2000. Thus, the studies reveal that the evolution of poverty rate in Romania increased with four percents, in the year 1989, at 20%, in 1993, for in the year 2000 to reach a level of 35,9% from the country's population.<sup>212</sup>




Having in sight the economical growth between 2000 and 2006 ( the increase of the net domestic product with five – six percents annually), the poverty rate abated, in 2006, at 13,8% from the country's population. However, the sociological data indicate an absolute poverty rate extremely high in the European context, comparable with some countries in the former Soviet Union.

According to the study that deals with the 1998 – 2007 period performed by Soros Foundation, the winners of the post – communist transformations are the younger people, with high education or with a qualification that is requested on the market. The losers, on the other hand, are especially the individuals with a low level of education, or with no qualifications, that especially reside in the rural area. Children, young people, gypsies, people with a low level of education, unemployed person and the occupied individuals from the informal sector have had over long periods of time and still have a significant risk for poverty.<sup>213</sup>

The Corruption's Index of Perception TI was launched for the first time in 1995 and it is one of the most known and used instruments of Transparency International. It is a composite index, that is based on the data regarding corruption from the specialized surveys effectuated by several independent renowned institutions. It reflects the businessmen's opinion and that of the analysts from all around the world, including also that of the experts from evolved countries.

According to the Corruption's Index of Perception 2004, Romania is part of the 60 countries of whose corruption is perceived as generalized and that have obtained lower score than 3 points out of 10.

The score obtained by Romania this year is inferior to the average of annual score obtained from 1997 until 2004, which are 2.97. In order to offer a relevant comparison term for the European integration demarches of our country, we specify that, during the same period the medium attained by the EU member states was of 7,71, and the average achieved by the became member states (former candidate states) of EU is of 4,66.<sup>214</sup>

Trend Country						
	2007	2008	2007	2008	2007	2008
Germany	7,8	7,9				
Ireland	7,5	7,7				
Belgium	7,1	7,3				
Slovenia	6,6	6,7				
Estonia	6,5	6,6				
Cyprus	5,3	6,4				
Slovakia	4,9	5,9				

211 <http://www.newschannel.ro/stiri/rata-saraciei-absolute-din-romania-este-comparabila-cu-cea-din-tarile-ex-sovietice> visited on the 05.05.09

212 <http://www.newschannel.ro/stiri/rata-saraciei-absolute-din-romania-este-comparabila-cu-cea-din-tarile-ex-sovietice> visited on the 05.05.09

213 <http://www.newschannel.ro/stiri/> visited on the 03.05.09

214 <http://www.transparency.org.ro/files/File/IPC%202004%20Comunicat%20TI-Ro.pdf> visited on the 25.04.09

Greece	4,6	4,7				
Poland	4,2	4,6				
<b>Romania</b>	<b>3,7</b>	<b>3,8</b>				
Bulgaria			4,1	3,6		
Lithuania			4,8	4,6		
Italy			5,2	4,8		
Hungary			5,3	5,1		
Portugal			6,5	6,1		
Spain			6,7	6,5		
France			7,3	6,9		
Great Britain			8,4	7,7		
Luxemburg			8,4	8,3		
Holland			9,	8,9		
Finland			9,4	9		
Denmark			9,4	9,3		
Sweden					9,3	9,3
Austria					8,1	8,1
Malta					5,8	5,8
Czech Republic					5,2	5,2

Source: [http://www.transparency.org.ro/politici\\_si\\_studii/indici/ipc/2008/Evolutia%20state\\_lor%20UE%20in%20ultimul%20an%20de%20evaluare%20IPC.pdf](http://www.transparency.org.ro/politici_si_studii/indici/ipc/2008/Evolutia%20state_lor%20UE%20in%20ultimul%20an%20de%20evaluare%20IPC.pdf) visited on the 25.04.09

According to the Corruption Perception Index from September 2008, Romania acquired 3,8 points out of 10, a score with a tenth higher than the one from the previous year. Thus Romania was rising in the ranking of the member state of European Union, occupying this year the penultimate rank, and leaving the trailer rank to Bulgaria, that registers and abatement of 0,5 points towards 2007. This index attained by Romania is not at all a matter of pride or satisfaction considering that this increase is of only 0,1 and represents an inertial trend.

Although apparently hopeful, this accession is insufficient and insignificant in order to be competitive in the European Union, and having in sight the fact that the average of the other member states is of 6,62. For assuring the sustainability of this Index and to augment the credibility of the anticorruption reforms for the foreign investors and also for the Romanian citizens it is necessary a concrete implementation of the measures taken in the legislative area, at institutional level, as well as the point of view of creating models of well practices.<sup>215</sup>

Working without legal forms is a spread phenomenon in Romania, being encouraged by the system's corruption and the lack of laws.

In Romania illegal working represents, above all else, the expression of the absence of trust in the public institutions, of the negative perception of the state's role and the deficient understanding of the benefits that derive from the social contributions. More than half of the jobs in Romania are not included in the working legislation. Employees often don't have access to social protection and other benefits, and untaxed payment, at envelope, is a common practice. This means much lower sums resulted from taxes, thing that offers fewer opportunities for assuring the necessary

<sup>215</sup>[http://www.transparency.org.ro/politici\\_si\\_studii/indici/ipc/2008/Comunicat%20de%20presa%20TI%20Romania.pd](http://www.transparency.org.ro/politici_si_studii/indici/ipc/2008/Comunicat%20de%20presa%20TI%20Romania.pd) visited on the 25.04.09

infrastructure and public services. Insufficient security measures from which the illegal labor sector has determines a vulnerability of the population at economical shocks and poverty.<sup>216</sup>

The illegal work value in Romania stands between 16 and 21% of the Gross Domestic Product, and Romania is the EU state with the highest proportion of citizens (23%) of whose incomes and bonuses are not totality declared to the competent authorities.

The ampleness of illegal working in the EU states from central and Eastern Europe is the highest in comparison with the level of the old member states. Romania is placed on the fifth rank concerning the proportion represented by the illegal working – 16 – 21% from the Gross Domestic Product, according with some data available from 2006. Romania is outrun by Bulgaria (35% in 2004), Hungary (18% in 1998), Latvia (18% in 2000) and Lithuania (18,9% in 2002).<sup>217</sup>

A conclusion of some studies realized by NEWSINN is that the persons that think that they risk very little by working illegally are more susceptible in not declaring their incomes. The persons that appeal to illegal working have the tendency in accepting behaviors that don't conform to social standards. These behaviors refer to services realized in a house holding without declaring this activity and the afferent incomes, and as far as in using means of transportation without paying the ticket. In a surprising manner, individuals with a high level of education and that belong to superior remunerated social categories and over the average are much more inclined in acquiring goods and services in an illegal way.<sup>218</sup>

The underground economy in Romania, Estonia, Latvia, and Bulgaria has a weight between 36% and 39% from the Gross Domestic Product of these states, in the situation in which the black market is expanding.

The highest weight in the underground economy is represented by the non-payment of the salaries' contributions and the payment of the wages 'in envelope' – 29,556 billions lei (approximately 5,8% from the Gross Domestic Product), followed by tax evasion as a consequence of the VAT ( Value Added Tax) – 23,815 billions lei (4,6 from the Gross Domestic Product) and the informal sector – 4,745 billions lei (0,9% from the Gross Domestic Product).<sup>219</sup>

The diminution of the VAT all aver the 27 member states, the abatement of the monetary policy's interest of the European Central Bank (ECB) and the allocation of tens of billions of Euros for investments are the main measures the European Commission proposes.

Likewise, we consider that the measures proposed by the European Commission regarding taxes' reduction on the smallest incomes of the EU, with the hope that, in this manner, employments are going to be impelled, and also the support given to the automobiles industry through the reduction of the VAT and the rendering of loans from the European Bank of Investments for the big producers, can also be of help for the long expected revival.

In respect to the illegal working, underground economy, corruption, Romania must build on the basis of reformations and efficient regulations in order to reduce these undesired existing phenomena. Illegal working is present in numerous sectors, as constructions, services and agriculture. The main examples are represented by the unregistered companies, false self employments and not declaring the total amount of the incomes.

In a country affected by the financial crisis, that will have to support investments of billions of Euros for education, defense and infrastructure, with larger budgetary expenses and under the threat of strikes and social conflicts between the Government and almost all the budgetary categories the previsions are not at all optimistic.

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216 [http://www.standard.ro/articol\\_89206/euobserver\\_economia\\_subterana\\_din\\_romania\\_depaseste\\_36\\_din\\_pib.htm](http://www.standard.ro/articol_89206/euobserver_economia_subterana_din_romania_depaseste_36_din_pib.htm)  
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217 <http://www.wall-street.ro/articol/Economic/34516/Munca-la-negru-reprezinta-16-21-din-PIB-ul-Romaniei.html>  
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