Sustainable growth

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Abstract
This paper aims to analyze the economic growth in general as well as in Romania, trying to highlight the elements that stand at the foundation of this process. The beneficial effect of the growth process, resulted in the improvement of living standards and the need to implement measures to improve this process in our country, were decisive elements that led to an improvement in the standard of living of the individual.

Keywords: economic growth, harmonious development, economic gaps.

JEL codes: F43; O10; R11.

1. Introduction

Given the state of the Romanian economic and social development, economic growth can be characterized by the pursuit of macroeconomic indicators expressing the potential and the actual level of the economy, its structure, input use efficiency and level of international competitiveness and living standards of the population.

Economic forecasts for 2007-2013 in Romania are based on the assumption that the business environment will remain stable and the growth of main trading partners will not significantly decrease.[1] EU accession will accelerate economic and social development of Romania. The domestic capital and labor are needed to support continuous and sustainable growth, along with global level trends, namely: globalization, communication and information technologies, environment protection. An important condition for accelerated economic development is the exploatation of internal growth potential (evaluated by the National Prognosis Commission and the European Commission at a level ensuring economic growth over 6%) and consequently improvement of the domestic product contribution to national aggregate demand (see table no. 1).

[1] Burghelea, C., Dumitrescu, M., Cristea, D., G., *Analysis of Romania's Foreign Trade Policy*, Ovidius University Annals, Economic Sciences Series, Volume XIII, Issue 1, Year 2013, pp.19-24

Table 1

Gross Domestic Product

	2006	Average rate 2007-2013 (%)
Domestic demand, of which:	9.5	7.2
- individual consumption of population	9.4	6.2
- collective consumption of public administration	4.0	3.3
- gross fixed capital formation	12.6	11.1
Exports of goods and services	13.1	.2
Imports of goods and services	18.0	11.1
Gross Domestic Product	**7.0**	**5.7**
Industry	6.4	5.1
Agriculture	0.5	2.7
Building	15.2	10.7
Services	6.8	5.9

Source: www.cnp.ro

2. Economic diversity

The European Union is one of the most prosperous economic areas of the world, but the differences between Member States are striking, and this discrepancy is more obvious if we take into account the 250 different regions of the Union.

To assess these differences, we must first measure and compare the level of prosperity in each country determined by gross domestic product (GDP) of each. For example, in Greece, Portugal and Spain, GDP per capita is only 80% of the Community average. Luxembourg exceeds the average percentage over 60 percent. The ten most dynamic regions in the Union have a GDP nearly three times the ten least developed regions. In other words, not all Europeans have the same advantages and chances of success for the challenges of globalization. It all depends on where you live, whether it is in a prosperous or a poorer region, in a dynamic or declining zone, in cities or in the countryside, on the outskirts of the Union or in one of its economic centers.

Solidarity between the peoples of the European Union, economic and social progress and greater cohesion are stipulated in the preamble of the Treaty of Amsterdam. Therefore Member States implement EU regional policy financed by European funds (Structural Funds and Cohesion Fund), which reflects the political solidarity between citizens.

The European Union comprises 27 member states forming a community and domestic market of 493 million citizens. However, social and economic differences between these countries and their 268 regions are very large. One of four countries has a GDP per capita below 75% of the average of the 27 EU countries (see table no. 2).

After 2004 these differences have widened, with the accession of twelve new member states whose incomes are lower than those in the EU. You can see differences in levels of prosperity both between and within member states. Even before enlargement, the top ten of the most dynamic regions had a level of prosperity, in terms of GDP per capita, nearly three times higher than the last ten less developed regions. Most prosperous regions are all urban London, Brussels, Hamburg.

GDP per capita in London is nine times higher than in the poorest regions of the EU, for example in Romania. These inequalities have various causes and may result in permanent handicaps imposed by geographic remoteness or the recent social and economic changes. In the new member states, part of the problem is the result of inheritance of the former centralized planned economic systems. The impact of these systems is often highlighted by social deprivation, mediocre education, high unemployment rate and inadequate infrastructure. Dynamic effects of EU membership combined with a strong organized regional policy can generate positive results. The case of Ireland is particularly encouraging: its GDP which was 64% of the EU average at the accession date in 1973 is now one of the greatest.

Table 2

GDP per capita in European Community countries (relative to EU average)

Countries that joined the EU in 2004 - GDP/capita (EU 27 = 100)			
	2004	**2008**	**2010**
Hungary	63	64	65
Czech Republic	78	81	80
Poland	51	56	63
Slovenia	87	91	85
Countries that joined the EU in 2007 - GDP/capita (EU 27 = 100)			
	2006	**2008**	**2010**
Bulgaria	38	44	44
Romania	38	47	46

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

One of the priorities of regional policy post 2004 is to raise living standards in the new member states near the EU average as quickly as possible. Regional policy of transferring resources from the rich to the poor is both an instrument of financial solidarity and a powerful engine for economic integration. Solidarity and cohesion are the values on which the EU regional policy is built. Solidarity aims that citizens and regions that are disadvantaged compared to the EU average to benefit both socially and economically of this policy.

Cohesion implies benefits for all, so that differences between income and prosperity in poorer countries and regions to be reduced. EU regional policy seeks to reduce structural disparities between EU regions, to promote sustained and balanced development throughout the EU by promoting real opportunities for all. European regional policy is designed to bring concrete results, social and economic cohesion in order to reduce disparities between the levels of development of the various regions. Through a specific approach, regional policy brings added value to on-field actions, helping to finance concrete projects for the regions, cities and their inhabitants. The idea is to create potential so that the regions can fully contribute to achieving higher growth and competitiveness and at the same time, exchange of ideas and practices.[2]

We can take into consideration few important things for the welfare of a country as the growth rate of the economy. For rich countries a positive rate means higher wages, higher profits, more jobs, and more opportunities for business. For poor countries means not only fewer poor people, but also reducing infant mortality, life expectancy at birth higher, better health care, better access to education, reducing discrimination against women, increase of public freedoms and democracy.[3]

Romania has advanced between 2006 - 2010 to 46% of the EU average in terms of GDP per capita to 11,400 euro, ranking third in the EU12. Romania has recovered 11 points

[2] Burghelea, C., Ene, C., M., Uzlău, C., *Impact of economic models on European Union economies development,* Theoretical and Applied Economics, Volume XX (2013), No. 4(581), pp. 91-102

[3] Work paper- The Global Competitiveness Report 2003-2004, World Economic Forum, Chapter 1

from the gap. According to the analysis, in the same period Romania has recovered 6.8 percentage points of the gap towards the EU average in terms of labor productivity per hour worked, being ranked 4th place in the EU12, after Slovakia, Estonia and Latvia, while the Slovenia and Czech gaps have widened.

Minimum wage increased by about 68 euro during the last 5 years, from 89.7 euro to 157.2 euro, with an average annual growth of 11.25 euro. From this point of view, we rank after Slovenia (39.4 euro), Latvia (25.4 euro) and Slovakia (22.5 euro) but ahead of Hungary (5.6 euro), Bulgaria (6.8 euro) and Czech Republic (9.7 euro).

The unemployment rate rose 0.9 percentage points from 7.3% to 8.2%. We ranked 5 in the EU12, after Poland (-4.6 percentage points), Czech Republic (-0.4 percentage points) and Slovakia (-0.2 percentage points) and ahead of Lithuania (9.5 percentage points), Latvia (9.3 percentage points) and Estonia (6.6 percentage points).

Inflation fell by 0.7 percentage points from 6.6% to 5.9%. Therefore Romania is ranked 3rd among the new member states, after Bulgaria (-3.8 percentage points) and Latvia (-2.4 percentage points), while Poland (2.4 percentage points), Cyprus (1.2 percentage points), Estonia (0.8 percentage points) and Lithuania (0.2 percentage points) registered increases of the inflation rate.

In terms of the budget deficit, Romania also grew by only 2.2 percentage points below the European average advance, which was 3.2 percentage points in the last five years.

Romania's exports also increased by an average of three billion euros per year, reaching 49.8 billion euros in 2011, while imports increased by an average of two billion per year to 55.3 billion euros, in 2011. In both cases, Romania ranks fifth in the EU-12.

Romania's trade deficit halved between 2006 and 2011, from 11.74 billion euro, reaching 5.51 billion euros. This trend puts us in second place in the EU, after Hungary, who succeeded moving from a deficit of 0.82 billion in 2006 to a surplus of 8.17 billion euros in 2011. Employment rate of population aged 15-64 years has remained constant, between 2006-2010, to 58.8%, compared to the European average, which fell by 0.4 percentage points.

Romania is ranked 5 in the EU-12 in terms of evolution of this indicator, being surpassed by Poland, Malta, Bulgaria and Cyprus which registered increases in employment rates. Share of economic sectors in the GDP of the country has changed substantially, so that in 1990, when he started the transition from socialist economy to capitalist market economy, the share of sectors was as follows: 49% industry, 36% services and Agriculture 5% (see table no. 3).

Table 3

Evolution of economic activities march - may 2012

Evolutions	Processing Industry		Building		Retail		Services	
	Feb.2012-Apr.2012	Mar.2012-May.2012	Feb.2012-Apr.2012	Mar.2012-May.2012	Feb.2012-Apr.2012	Mar.2012-May.2012	Feb.2012-Apr.2012	Mar.2012-May.2012
Economic Situation	↗	↗	→	↗	→	↗	→	↗
Number of employees	→	→	↘	→	↗	→	→	→
Prices	↗	↗	→	↗	↗	↗	↗	↗

Source: www.insse.ro

From the economic point of view the EU is one of the richest areas in the world, but the standard of living differs considerably between regions in different member states as well as between regions of the same country. Luxembourg, the most prosperous country in the EU is more than seven times richer than Romania and Bulgaria, the poorest Member States that joined the Union most recently. Using indicators such as GDP and income per capita to measure the productivity of nations highlights the significant gaps. Most experts say that the greater the nation's GDP is, the country is richer or the higher per capita income is, the country's economy is more stable. Income per capita somewhat dictates how much each individual resident in the country earns annually. GDP (gross domestic product) estimates the nation's market production of goods and services. Therefore, higher GDPs can almost always refers to greater productivity in the country.

Romania and Bulgaria have the most worrying situation; these countries ranking penultimate respectively last according to Eurostat. In Romania, after a slight growth of 3%, the purchasing power in the period after accession, this increase is likely to disappear by the end of the year because of drastic austerity measures envisaged by the Romanian authorities to tackle the budget deficit. Danger of political instability and poor preparation of economic structures for application of sustainable measures, leading to economic growth also add to this situation. These differences in standards of living are due to discretionary personal income, considered as the average monthly amount that a consumer can spend only for himself, in addition to any expenditure at household level and not considering expenses for food, shelter, household items or personal services.

The economic crisis in Europe, accompanied by austerity and wage cuts or layoffs and price increases, has directly affected the living standard of the population. While countries with a large Gross Domestic Product (GDP) per capita managed to maintain top positions and even increased compared to the EU average, Romania and Bulgaria, under the bottom, were thrown even further.

Between 2000 and 2008, GDP per capita in the EU27 increased on average by 1.8% annually. During the economic boom during 2003-2007, growth rates amounted to 2.7% and were much higher in some countries of Central and Eastern Europe. However, due to the economic crisis, GDP growth per capita fell first to 0.1% in 2008, and then in 2009 to -4.6%. Since 2010 there has been a steady growth of about 1.6 percentage points.[4]

Growth rate of GDP / capita in Romania fell to -6.9% in 2009 due to the economic crisis. For year 2014, a growth of 2.2% and 2.7% is forecasted.

3. Proposals for stimulating and improvement of the Romanian economy

After we managed to form an image on the Romanian economy and having identified the factors that had a beneficial role in economic activity, now we have to recognize the elements that negatively influenced its evolution.

Following a brief reassessment of what we have presented so far, we noticed a set of critical points in the evolution of Romanian economy, and we will try to find some solutions to mitigate them.

Over the period, despite a set of economic, political and social events that took place in the Romanian society, we see that the Romanian economy has faced a growing internal demand. Here comes the importance of how the aggregate supply fails to respond to this challenge, as it must take into account consumer preferences and tastes, traditions, and the specificities of different regions in order to meet their expectations. So, to obtain more

[4] Panait I., Lupu I., *The behavior of the Bucharest Stock Exchange during the current financial markets crisis and proposed measures for its sustainable development*, Analele Universităţii Spiru Haret – Seria Economica, Vol.1, ISSN 1582-8336, Bucureşti, 2009, pag.73-80

performance, you need to focus on improving methods of management and marketing, to streamline all economic activity.

Another problem that arises in our economy is the drastic reduction of industrial and agricultural sector's contribution to GDP over the period. It is time to put a question mark on that and try to identify the conditions that constrain the activity of these important sectors in our country. It is clear that to remediate the situation; we need to introduce changes that would stimulate production and efficiency in these sectors. Therefore, a first solution in terms of achieving performance in agriculture is the introduction of plans to modernize the machinery and methods of production. Another solution to boost agricultural activity is to strengthen tax incentives for this sector. These solutions can have a big impact on this area, possibly leading to increased competitiveness of Romanian agriculture.

To influence industrial production growth in Romanian, developing of small and medium enterprises is needed; they have to be encouraged to intervene in the foreign market, which may have a beneficial role on the economy, reducing net exports.

Education, research and development and healthcare are important sectors to be continually stimulated as their development has vital effects on the economy are even areas that form the pillars of sustainable economic growth.

While making these changes one must take into account the ratio of variables in order not to damage the balance relationship or disrupt the normal operation of the economy.

4. Conclusions

Following this brief presentation, we can see the importance of the economic growth process has over the economic activity of a society. Since economic growth means the way living standards can be improved, it needs to occupy a prominent place among the objectives of any nation.

Given that economic growth process aims to obtain a better life for the whole society, it takes a certain government intervention to help achieve this. Therefore, the government has an important role in the economic growth, as it can intervene in the economy in certain situations, in mitigating the business changes by implementing appropriate measures. But state intervention must be strictly oriented to the problems can not be solved except through it, because excessive intervention may have negative effects on the economy.

Through its role of ensuring a legal economic activity and ensure the production of collective goods utility that could not be produced in the private sector, the state plays an important role in the growth process. Therefore, the government is obliged to pay attention to this process, focusing their forces to achieve those actions that are aimed at positive results, which translates into a better life for citizens. For the achievement of economic growth, the government should take into account three dimensions: economic, environmental and social. The economic dimension is supported by scientific research and stimulates investment in innovative capacities of human capital, social concerns sensitive reduction of various social groups, access to material wealth, education, culture and information, and the environmental dimension involves restoring the balance between society and nature by cultivating the population a responsible behavior towards the environment. The measures implemented by the state should not adversely affect any of the three dimensions, as non-compliance leads to reduced growth or deterioration process.

Therefore, when designing measures for growth special attention is needed in order to meet all these sides, so that the growth would be sustainable and would not lead to a transformation of this process into a phenomenon of economy overheating.

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