CHOICES OF A SUSTAINABLE GROWTH

Andrei Mihai CRISTEA
Hyperion University, Bucharest, Romania,
cristeaandm@yahoo.com

Miron DUMITRESCU
National Institute of Economic Research - Romanian Academy,
Bucharest, Romania,
miron_hyp@yahoo.com

Dan Gabriel CRISTEA
Hyperion University, Bucharest, Romania,
dancristea2@yahoo.com

Eduardt Petrică SAMOILĂ
Hyperion University, Bucharest, Romania,
eduardt.samoila@yahoo.com

Abstract:

The article refers to the main pros and cons of the optimal currency area membership. Each country has the right to choose if it wants to be part of an economic Union, but this implies taking over certain specific costs but also gaining some benefits. On its way to the euro currency, our country must fulfil real convergence criteria, which create problems although they are not mentioned in any treaty. The article presents the current situation in Romania, but also some benefits of adoption, focusing on the risks of adopting the euro in a very short time.

Keywords: real convergence; economic growth; economic benefits.
JEL Classification: O47; F43; J32.

1. Introduction

Real convergence criteria are not mentioned as well as the nominal convergence criteria in the Maastricht Treaty. In terms of real convergence, it takes into account the level of life of the inhabitants depending on income and productivity, reducing structural disparities between social classes, degree of development[1] as approaching the economic performance of all the member countries of the Euro area.

The Maastricht Treaty designates real convergence as a long process during which the extinction of disparities in terms of the levels of social and economic development is wanted, this being one of the fundamental objectives of the European Community. On the long term GDP per inhabitant in the Member States can be observed getting very close to each other, and countries that are at the stage of accession to the Euro area, but have not joined yet, have a higher percentage of living standards approaching towards those of the Member countries, while after joining the Euro, this level no longer increases so much as in the period before adhesion.

The main and most often encountered criteria used to analyze the real convergence will refer to: labor productivity; external competitiveness; economic well-being; the structure of the branches of the national economy; labor costs; the level of GDP per capita; the degree of openness of the economy.[2]

2. Current level of development

We will analyze a very important indicator in order to determine the level of real convergence in Romania, *GDP/capita indicator in purchasing power parity* of each country in the European Union. We compare the GDP index per inhabitant of Romania with the index the most important countries in the European Union to see how close we are in terms of real convergence for adoption of the euro in our country. It can be seen that in the year 2007, GDP per capita was less than half the average in the EU, reaching a rate of 41%, well below countries such as Hungary, Poland, Italy etc. With the integration of Romania into the European Union, in the next three years 2008-2010, respectively, our country has maintained a rate of 47%, stalled for three years, while countries like Poland, Germany managed to increase the level of GDP per capita. In 2011, Romania managed to acquire two percentage points, reaching 49%, considering the fact that the United Kingdom, Italy and Poland have fallen as a percentage. In 2012, the country which registered the highest growth of GDP/inhabitant was Luxembourg, and Greece was the country with the steepest drop in per capita GDP.

It is hard to believe that in 2013, the GDP per capita in Romania had a considerable increase considering that in the year 2012, Romania, along

[1] Aceleanu, M., I., (2011) "Europe 2020" Strategy - Support for the Development of the Employment Strategy in Romania", published in the journal "Review of Applied Socio-Economic Research" Nr.2/2011, pp. 14-22

[2] Burghelea, C. (2011) "Economic Crisis perspective between current and forecast", *Theoretical and Applied Economics*, Vol. XVIII, No. 8, pp. 137-147

with Bulgaria it has recorded the lowest GDP/inhabitant in the European Union (see table 1).

Table 1.GDP/capita in purchasing power parity

Countries / Years	**2007**	**2008**	**2009**	**2010**	**2011**
EU 27	100	100	100	100	100
Euro 17	111	111	110	110	110
Romania	**41**	**47**	**47**	**47**	**49**
Germany	115	116	115	119	121
United Kingdom	117	113	111	111	109
Italy	104	104	104	101	100
Hungary	61	64	65	65	66
Poland	54	56	61	63	64
Cyprus	94	99	100	97	94
France	108	107	109	108	108

Source: www.eurostat.ro

The following analyzed indicator is *investments in the business*. In Romania, the opportunities for new business have a wider vision than in other countries. Romania has a real potential in this area and this can be helped by an increase in foreign direct investment with the help of European funds raise as big as they can get. Romania has an advantage for attracting foreign direct investment in the following areas: the size of the internal market, taxation, the importance of privatization of State-controlled enterprises, labor costs, etc.

Due to political instability, but also because of the current crisis, Romania no longer manages to draw as much foreign capital investors being slightly scared of the situation in our country.[1] This can be seen in the following table, the investments being at a high level in 2008, reaching 24.43%, and during the next three years there were sweeping changes, affecting the level of investment in Romania that reached in 2011 at a value less than half than in 2008, 13.34% (see table 2). Given the fact that 2008 has managed to be a very good year in terms of attracting investment in Romania, especially due to the fact that Romania was the newest member of the European Union, together with Bulgaria, we can say that this has helped a lot to attract more and more investors in our country.

[1] Gheorghiu, A., Gheorghiu, A., Spânulescu, I., (2009) "Target market risk evaluation", *Proceedings of the International Conference on Econophysics, New Economics & Complexity - ENEC-2009*, Editura Victor, Bucureşti, ISSN 2065-2550, p.113

Table 2. Investments in business

Countries / Years	2007	2008	2009	2010	2011
EU 27	12.34	12.34	10.73	10.58	10.91
Romania	**22.49**	**24.43**	**17.11**	**13.80**	**13.34**
Germany	10.91	11.13	9.67	9.87	10.27
United Kingdom	13.12	13.67	11.54	11.42	11.85
Italy	11.45	11.34	9.81	10.48	10.48
Hungary	13.09	13.60	12.38	10.92	11.85
Poland	12.32	12.32	10.93	9.58	-
Cyprus	8.51	8.68	7.76	8.08	6.85
France	10.85	11.23	9.98	10.33	10.81

Source: www.eurostat.ro

The last criterion of real convergence is *labor productivity per person employed*. Macroeconomic theory often links real convergence success to developments in labor productivity. In fact, many studies show that the index of structural convergence with the European Union can increase mainly by *raising labor productivity*. Thus, salaries can be grown, the pace of economic development can be increased, the standard of living can rise, etc. Labor productivity growth should be consistent with the increase in business investment (as share in GDP). In fact, the indicator reveals the share of GDP that the private sector uses for investment (it is about increasing the share of gross fixed-capital formation in the GDP in the private sector).[1]

In the following table we present the labor productivity per person employed in the major countries of the European Union (see table 3).

Table 3.Labor productivity per person employed

Countries / Years	2007	2008	2009	2010	2011	2012
EU 27	100.0	100.0	100.0	100.0	100.0	100.0
Euro 17	108.9	109.1	109.2	108.7	108.6	108.2
Romania	**43.4**	**49.2**	**49.4**	**48.5**	**49.4**	**50.2**
Germany	108.4	108.0	104.3	106.1	106.6	105.5
United Kingdom	110.7	107.5	105.9	106.0	104.1	103.6
Italy	111.6	113.0	112.6	110.1	109	107.3
Hungary	66.6	70.4	72.4	70.9	71.2	70.5
Poland	62.3	62.4	65.5	67.4	69.1	72.3
Cyprus	85.5	91.1	92.3	91.1	91.0	93.0
France	115.7	115.4	117.3	116.4	116.6	115.4

Source: www.eurostat.ro

[1] Socol, A., (2009), *Macroeconomia integrării monetare europene. Cazul României*, Economic Publishing House, Bucharest

In case we can see that with the integration in the European Union, labor productivity per employee has increased considerably, thus in the year 2007 the percentage was 27.0%, reaching out in 2012 to more than half of the average of all the 27 EU member countries, 31.2% respectively. For Romania this is very important, but referring to the average labor productivity per person employed in more developed countries, we realize that in Romania the situation is quite critical. Reviewing the table we can notice that France has a percentage more than twice Romania's, reaching 115.4 in November 2012, while all other major powers in Western Europe are not badly ranked, Germany having a percentage of 105.5, United Kingdom103.6 and Italy 107.6.

At this time, Romania is very far from the adoption of the euro currency. Although originally the term for the adoption of the euro in 2014, it was subsequently decided to be extended until 2015, but currently the target for 2015 seems to be out of discussion. We might ask: should Romania join the Euro after previous failures of the countries that have adopted the euro? A big problem that can put in difficulty the Romanian economy is the very large structural differences between the economies of the Member States of the Union. Also, Romania should make a thorough analysis on the transition to the euro. Countries like Greece, Italy, Spain and Portugal have far bigger economic problems, and if Romania would adhere to the Optimum Monetary Area it would suffer, certainly in all economic fields.

3. Conclusions

The benefits of adopting the euro in Romania will progressively feed through over more than 10 years after its adoption, the priority being given to the costs and risks. The most important benefit of adoption and best known by citizens is the elimination of transaction costs for individuals and businesses, this contributing to increase productivity of factors of production. This benefit involves two main costs: financial costs in the case of foreign exchange, including costs associated with the volatility of the exchange rate, and the second is the administrative cost for enterprises in the case of foreign exchange transactions, such as trading or selling/buying products that are based on foreign exchange operation. With regard to the exchange rate, we can mention another benefit of the adoption of the euro by Romania, benefit tied to the removal cost in case of exchange rate risk. In this situation, it would be necessary that interest rates in Romania to drop and to reduce the cost of capital, which would lead to an increase in domestic investment. Consistent with the above benefits there is the expansion of foreign trade area between the member countries of the monetary area and Romania. If Romania would adopt the euro and trade with other Member countries of the euro area there would be a considerably large investment increase in Romania, productivity would improve and the technology flow could be expanded.

The risks of adopting the euro by Romania at a faster pace are linked to rising prices, maintaining wages at a low level and increasing unemployment. In terms of rising prices, it is clear that the transition from the national currency, the Leu, to the single currency, the Euro, will cause a massive increase in prices. A good example would be the situation in Spain, Greece, Portugal, where, although the inflation rate stood at a very advantageous level when these countries have adopted the euro, in the next few years inflation had to stabilize at a level similar to that of the powerful countries in the euro area and the prices have skyrocketed. As in the case of Romania, where inflation is reduced as a result of favorable situation policies and not reduced on structural basis, raising prices will be inevitable. In principle, the loss of competitiveness will have most to suffer from rising prices, having a negative effect on the macroeconomic imbalance.

Keeping prices lower than those in the rest of the Member countries of the Euro area represents the second major risk if Romania will adopt the euro because of the large differences in productivity between countries. Romania is likely to have a problem in this regard because the country's productivity is much lower than the euro area average, being forced to restrict wage increases in the future.

Rising unemployment is an old problem for Romania, which will also have major consequences after the adoption of the euro. Rising unemployment is closely related to the alternative exchange rate adjusting mechanisms. If Romania will no longer be able to take advantage of these mechanisms, the domestic economy will no longer be able to be adjusted when required, with the main consequence being the rising of unemployment. This can be seen in countries such as Greece, Italy, Spain, where unemployment has increased considerably, people having big financial problems because of this.

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