INTERVENTIONISM IN THE REAL ECONOMY (II)

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Rezumat

Intervenţionismul este cunoscut ca un „rău necesar” în dezvoltarea economică sau socială, dar poate căpăta noi dimensiuni în contextul actualei crize financiare şi economice. În acest context, studiul are drept scop prezentarea unor concepte mai mult sau mai puţin arhicunoscute de specialişti, dar care în prezent ar trebui redefinite.

Principala valoarea adăugată de natură conceptuală a studiului este aceea a încercării de redefinire a eficienţei intervenţiei şi rolului statului în economie şi societate. În acest cadru, după prezentarea principalelor aspecte privind relaţia între guvernare şi macroeconomie, eficienţa economică, justiţia socială şi dezvoltarea economico-socială, eşecul pieţelor, externalităţi, bunuri publice, din numărul anterior al revistei, dezvoltăm principalele probleme legate de determinanţii intervenţiei statului în contextul recesiunii economice şi intensitatea intervenţiei statului în economie.

Abstract

Interventionism is known as a "necessary evil" in economic and social development, but may gain new dimensions in the current financial and economic crisis. In this context, the study aims at presenting concepts more or less the class of specialists, but today should be redefined. Value added of the conceptual nature of the study is to test the effectiveness of intervention and redefining the state role in economy and society. In this context, after presenting the main aspects of the relationship between governance and macroeconomics,

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economic efficiency, social justice and economic and social development, market failure, externalities, public goods, in the last number of revue, develop the main issues related determinants of state intervention in the context economic recession and the intensity of state intervention in the economy.

Keywords: state intervention, externalities, public goods, economic efficiency

JEL classification: G01, H10, H11, H21, H23.

4. Determinants of state intervention within the context of the economic recession

4.1. The state and the local collectivities

In the widest meaning of the word, the state is the main organizer of the human economic activity, which sets general and compulsory rules of behaviour, organises the enforcement or execution of these rules, if necessary solves the litigations within the society. In a narrow meaning, the state is represented by the entire public authorities which ensure the governance.

According to some specialists the state is, restrictively and concretely speaking, the assembly of the political governing bodies and that it designates the apparatus directing the political society[1]. Thus, being an extremely complex social category, the notion of state is used with several meanings, but often, in the everyday life, the term state is also used in a much narrower meaning, relating not to the entire assembly of governance bodies, but to a concrete body, such as the Parliament, Government, Supreme Court of Justice.[2]

This way we may say that the state is the central public administration which gathers political and administrative institutions: the Government, the Parliament, the ministries, independent administrative authorities, control bodies and legal bodies etc.

The state is an institution, supported by a group of people, located on a delimited area, able to determine itself its competency and organized with the purpose to exert activities that can be grouped

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[1] *Ion Deleanu, "Constitutional right and political institutions", vol.II, Iaşi, 1992, p. 8.*
[2] *Boris Negrea, "General theory of the right and state", Chişinău, 1999, p. 54.*

according to the exerted functions: legislative, executive and jurisdictional.[3]

In Romania, the state is organised according to the principle of power separation and equilibrium - legislative, executive and legal – within the constitutional democracy[4].

The state belongs to our everyday life: paying taxes, crossing the border, slowing down upon the signal of a police officer, getting the driver's licence or studies diploma, getting governmental subsidy, receiving an award, these are just a handful of the multiple state manifestations.

The state can be defined as a hierarchized organisation of the powers differentiated from the civil society and having available specific resources (legal norms, administrative apparatus) which allow it to exert its authority in a specific territory.[5]

The term of **local collectivity**, designates a group of people who live in collective, they live and work in common. The term is synonymous with that of human community or community in general. Within this context, the term of community "*evokes the idea of a properly delimited physic and social area within which interactions take place and a process of reciprocal knowledge between the social actors, social links develop, norms and rules of behaviour are imposed, a feeling of belonging emerges*".

Community is not based on contact, rather on understanding, which is "*a reciprocal and common, associative way of feeling"* within a

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[3] *Tudor Drăganu, "Constituional right and political institutions", vol.1. pag. 116*

[4] *The Constitution of Romania, published in the official Monitor of Romania, Part I, nr. 767/2003, modified and completed by the Law for revising the Constitution of Romania nr. 429/2003, publis hed in the official Monitor of Romania, Part I, nr. 758 of October 29, 2003, republished by the Legislative Council on the basis of art. 152 of the Constitution, with updated names and a new numbering. Law for revising the Constitution of Romania nr. 429/2003 was approved by the national referendum which came into force on October 29, 2003, date of publishing in the Official Monitor of Romania, Part I, nr. 758 of October 29, 2003, of the decision of the Constitutional Court nr. 3 of October 22, 2003, to validate the result of the national referendum of October 18-19 2003 on the Law for revising the Constitution of Romania. The Constitution of Romania in its initial form, was adopted in the meeting of the Constitutional Assembly, of October 21 1991 and entered in force by approval through national referendum of December 8, 1991.*

[5] *Gheorghe Bichicean, "Introduction in political sciences", "Petru Maior University Press", Tg.-Mureş, 2007, p. 78.*

collective "*will*" which is the expression of an entity. It is supported, as Max Weber said, on a "*common affiliation, felt subjectively (affectively or traditionally) of the individuals who participate in it*", the community being defined as an "association if, and to the extent to which the availability for social action relies on an identity of interests or on a bond based on interest, motivated rationally in terms of value and purpose".

All the forms of social life to which an individual takes part by birth can be regarded as communities: family, group of relatives, ethnic affiliation or nationality, mother tongue, locality, nationality, citizenship, religion etc. The community can be a rural locality or a group of localities (territorial community), a professional group, the members of a residence (home for children, hospital, boarding school), an association, a type of social association within a limited area (neighbourhood, block, slum), a network of interests with hierarchic structure, for instance, the community of the businessmen, scientific communities, academic communities etc.

A collectivity of any kind (family, local collectivity, state) usually is a unit, a whole, with a structure which is irreducible to the composing individuals. This phenomenon doesn't derive, however, from the merge or annihilation of the individuals as such, rather from their association, cooperation and solidarity, from the integration of the individuals within the society.

The local collectivity is also viewed in terms of "local human groups" or "inhabitants from a geographical fraction which is portion of a state's territory", or with the meaning of administrative-territorial unit having the quality of subject of the report of constitutional right of "groups of population organised by territory".

In Romania, according to the provisions of art. 120 from the Constitution of Romania, republished, by acknowledging the local autonomy, the law-maker acknowledged the quality of local collectivities of the administrative-territorial units (commune, town and county) and, by law, the quality of political-territorial legal persons. The local collectivity was defined by organic law as the totality of the dwellers from the territorial-administrative unit.

In the perception of the Romanian constitution-maker there was a clear and explicit intention for the autonomous organisation of the Romanian local communities, which stands for the local democracy, one of the fundamental principles of any democratic regime.

The local collectivities have been organised in two ways, thus giving them a two-fold nature[6]:

- on the one hand, **administrative-territorial (disconcerted services)**;
- on the other hand, **local collectivities**, represented by own administrative authorities, which “achieve the local autonomy” (local councils, mayors and he county council) who solve, manage and execute the local public affairs. In this way, the local collectivities include the counties, municipalities, towns and communes, whose powers depend directly on the level of decision decentralisation;

4.2. Problem of the public expenditure

A better outline of state’s intervention in the economy is given by the peculiarities of public expenditure evolution.

The increase of the public expenditure as percent of the GDP raises sharply particularly[7]:

❖ **At war time**, when the states:

- Can put under state control the entire war industry
- Can limit the profits
- Can organise loans
- Can ban strikes
- Can forbid workers to change the job without special permit
- Can monitor the prices
- Can widen the bases for fiscality
- Can let the public debt increase
- Must feed the troops
- Must provide for soldier fees
- Must provide social assistance for the families of the enlisted soldiers, for the war victims and for the refugees
- Must ensure the purchase of war material

[6] *In agreement with the provisions of art. 120 from the Constitution of Romania, the public administration from the administrative territorial units relies on the principles of decentralisation, local autonomy and deconcentration of the public services.*
[7] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iaşi, 2002, p. 21.*

- Must compensate the owners of transportation vehicles and ships taken as requisition
- Must pay back the debts

❖ **After war**, the expenditure can not get back to the initial level (the levier effect), because:

- The expenditure goes to the former combatants and war widows
- The debt is too high
- Higher number of officials trying to justify their existence by the definition of new civil, not military tasks
- Evolution of people mentality after a period of sufferance, which demands welfare measures
- Maintenance of the military expenditure at a high level due to the "cold war" *between the US and Russian blocks), which followed the World War Two

❖ **During the economic crises**, when the extent of the difficulties (unemployment, bankruptcy, etc.) demand stabilising measures from the government, the purpose of the expenditure is to:

- Remedy the depression
- Secure the persons who lost their jobs
- Ensure the enrolment of the active persons on the labour market
- Finance the social security deficit
- Finance the public enterprises

Increase of the public expenditure

The general increase of the public expenditure in many developed countries shifted from 15% of the GDP before the World War One, to over 40% today[8]. Although in some developed countries, the political people at power managed to decrease the public expenditure using liberal and ultraliberal policies, this didn't change the long-term trend because the public expenditure ultimately exceeded the previous level.

Explanation of the size of the expenditure

According to the law of the German economist **Adolph Wagner**, „the size of the standard of living of the population and the expenditure

[8] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iaşi, 2002, p. 23.*

for industrialization are at the origin of the relative increase of the public expenditure share".

The increasing complexity of the modern economy determines the state to assume expenditures for products and services that have to be obtained whatever the cost, even if the market demand is low, these expenditure being in relation to:

- Maintaining public order
- Urban public services (water supply and cleaning, street lights, etc.)
- Communications
- Various regulatory activities (such as maintaining market competition)
- Education
- Culture
- Health and environment
- Leisure activities
- Transportation infrastructure

According to the American economist **William Baumol**, „the poor productivity of the public services stimulates the progress of the budget expenditure", because the unit costs with the work force increase regularly in the public sector where productivity increases quite little.

In the conception of this economist, the dynamic sectors, with the highest gains of productivity are:

- agriculture,
- industries,
- telecommunications,
- services to enterprises

Baumol, shows by his research that:

- in the dynamic sectors the wages increase with the productivity increase
- the wages will increase in all the economy by a "catching" effect of the claims or due to unions actions
- the increase of the production costs in the low productivity sectors cause the prices to increase
- the administrations should always allocate important revenues to remunerate the official who anyhow are non-productive

The economist **William Niskanen**, describes the public production as a less efficient activity than the private production because of the bureaucracy and of the lack of property rights.

Thus, for the public administrations:

- there is no control by the owners, who are replaced by the state
- there is no control by the consumers, users of public services, who can not protest by going to the competing enterprises

The lack of control also explains the:

- lack of productivity of the administrations,
- inflation of the production costs,
- multiple wastes

Asymmetry of the expenditure and revenue[9]

For the state, the seek for budget surplus or the mere maintenance of a budget equilibrium produces higher taxes or cuts in the expenditure, solutions which inflict immediate penalties on part of the taxpayers or beneficiaries of transfers. The acceptance of a deficit allows spending without levying, so that there are immediate winners, and no losers.

Because the political people holding the power need peoples' backup, the asymmetry between the expenditure and revenue makes them accept higher and more frequent budget deficits.

The **pressure groups**, take advantage of state weakness and the most efficient of them get advantages because no one can oppose their action.

The uncontrolled increase of state intervention ultimately is the product of this system: "to meet the demands of the pressure groups, the politicians make the public debt increase, increase income redistribution, give subsidies and multiply the collective equipment".

4.3. State intervention in the economy

According to the Constitution, the Romanian economy is a market economy based on entrepreneurship and competition, context within which the intervention of the state must provide[10]:

a) free trade, protection of the lawful competition, establishment of a favourable framework for the valorisation of all production factors;

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[9] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iași, 2002, p. 27.*

[10] *Constitution of Romania, published in the Official Monitor, Part I, nr. 767/2003, art. 135.*

b) protection of the national interests within the economic, financial and currency activity;

c) stimulation of the national scientific and technological research, of the art and protection of the intellectual rights;

d) exploitation of the natural resources in agreement with the national interest;

e) restoration and protection of the environment and maintenance of the ecologic balance;

f) establishment of the conditions required for a better quality of life;

g) enforce the regional development policies in agreement with EU goals;

The **theory of the minimal state**, promotes a sensitive or total withdrawal of the state interventions in the economy.

The traditional criticisms to the interventionist consequences of the state refer to:

- waste
- excessive taxation, as shown by Laffer's curve
- burdening the enterprise costs
- too difficult governmental programs for wealth redistribution
- transformation of the state citizens in persons dependent on governmental assistance
- loss of the personal capacity of reaction and of the sense of responsibility

Laffer' curve shows the formula according to which: „too high tax kills the tax".

The **fiscal pressure** makes the taxpayers to:

- reduce the labour offer;
- disguise the incomes through **fiscal fraud** or **informal work**;
- transfer the capitals aboard, even to **fiscal paradises**;

5. Levels of the state intervention

5.1. Minimal state

It corresponds to the liberal conceptions by which the minimal state is the state which acts just to ensure the observance of the private right, ensuring the safety of the goods and persons.

Within this context, the areas of intervention of the state refer to:

- at the domestic level:

- general administration
- public order and national safety
- maintain competition by regulations
- public services

- at the foreign level:

- diplomacy
- national defence

According to the theory of offer economy, **the economic crisis is not caused by the lack of demand**, but by the **lack of offer** from the producers, so that the state, according to the developed countries, must:

- deregulate the economic activity
- cut the taxes and other state levies
- take any measures necessary and susceptible to free the enterprises from administrative constraints
- ensure a restrictive monetary policy
- ensure a lower public expenditure
- open the public monopolies to competition
- privatize most of the nationalized sector
- reduce the social transfers
- favour the insertion of the national economy within the world market
- give up price control
- give up regulating the capital movements
- give up framing the banking credit
- prepare the nation to confront the challenges of globalization

5.2. Theories regarding the necessity for state intervention

Limits of the minimal state

The minimal state can not solve the problems requiring the firm state intervention in matters of:

- integration, racism and intolerance
- influence of the information technologies on the future generations behaviour
- national identity in front of the globalization
- strong economic depressions
- dislocation of the enterprises

- drawing in foreign capital

Robert Reich, in his work Globalized economy, (1991), shows that:"there is an increasing relation between the level and type of investments of the public sector and the national capacity to draw in world capital", but this capacity also depends on the "existence of competencies of the national active population and of the infrastructure quality which distinguish it from the others and make it more attractive". Robert Reich considers that, within the context of globalization, the state plays an essential role in stimulating the enterprises so that they:

- can preserve the labour force;
- stimulate the staff with benefits;
- remain within the community in which they are located;

Functions of the state

Richard Musgrave, in his book *Theory of the public finances*, (1959), considers that the state has three main functions: allocation of resources, economy stabilization and resources redistribution.

Allocation of resources, by the state, corrects market imperfections, mainly the externalities. By this intervention, the state plays an influence on the production factors (work and capital) between the different productive sectors, at the level and structure of the domestic production volume.

Economy stabilization, aims directing the economy on the long run, not just influencing the short-term initiatives; the state thus defends the great macroeconomic balances:

- inflation
- foreign trade balance
- balance of payments
- exchange rate stability
- deficits and public debts
- employment situation

Resources and incomes redistribution by the state should attempt to *reduce the inequities*. The state must endeavour to enforce *better social justice by levies and transfers.*

Within the context of Musgrave's typology, the liberal economists refuse to acknowledge a stabilizing role for the state, while the Keynesian economists insist on the importance of this function.

Below is the position of the different schools in relation to Musgrave's typology of the state functions[11]:

Schools/position	Keynesian	Liberals	Ultraliberals
Allocation	**Favourable**, but Keynes always opposed nationalization.	**Favourable**, as long as it fights against the obvious weakening of the market.	**Unfavourable**. Resource allocation should be done by the markets.
Stabilisation	**Favourable.** Keynes proposes the use of monetary and budgetary policies to fight recession.	**Unfavourable**. Any conjectural policy stresses misbalances	
Redistribution	**Favourable.** Keynes support income redistribution in favour of the social classes with the highest marginal disposition towards consumption.	**Favourable.** Only within certain limits, to reduce the most striking inequalities	**Unfavourable**. The redistribution policy has no object. "Social justice" is a meaningless notion.

5.3. The interventionist state

It emerged after the World War Two and aims the direct intervention on the big economic balances.

1. The state and the market. Strategic commercial policies

A performing economic system exists when on each market there is a balance between the demand and offer of goods and services, so that the market economy leads to an efficient allocation of the resources which ensure the production of all the goods and services required by the population.

According to the neoclassical economists, the existence of the balances is done automatically on the markets because:

- markets are perfectly competitional
- the price system allows the consumers to display their preferences
- the yields van be decreasing, meaning that from a given production the marginal costs of the companies increase

[11] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iaşi, 2002, p. 45.*

According to the pattern of Léon Walras and Wilfredo Pareto's perfect competition, "market functioning was supposedly managed by the market itself, at an optimal level in which the satisfaction of an economic agent can no longer increase without degrading other economic agent's satisfaction". This pattern is known as "Pareto's optimum".

The neoclassical economists conceive the state as „defect", considering that its intervention is justified only where the market is weakened (market failure), where there are imperfections.

The imperfections of the real world in relation to the theory of the perfect competition, according to the neoclassical theoreticians, can be traced in:

a. the external effects of the economic agents' interactions
b. the monopolist market structures
c. the collective, indivisible goods

a. External effects of the economic agents' interactions (externalities), analysed by Alfred Marshall and Arthur Pigou (Economics of Welfare, 1920), are „*interactions between the economic agents, not taken into consideration by the market and price system*".

They can be:

- negative external effects, which have not been taken into consideration and which were not integrated in the calculation of enterprise profitability, which will subsequently have to bear the consequences. For instance, air pollution by a steel production company which causes prejudices and costs to the tourists located in the proximity, in a summer camp.
- Positive external effects, such as the town tramway tracks and tramway cars which limit crowding.

The external effects (externalities), cause distortions between the private costs (calculated at the microeconomic scale) and the social costs (at the collectivity level). They can make the market produce excessively (negative externalities), or insufficiently (positive externalities). *Under these conditions, the state is legitimate to intervene and compel the enterprises to integrate in their calculations the negative external effects and the positive external effects*. The state must thus supply the services that produce important external effects, inaccessible to those who proposed them (education, transportation, etc.).

State intervention on the externalities can be done by:

- Introduction of taxes proportional with the caused marginal prejudice (such as the principle polluter pays)
- Introduction of subsidies proportional with the marginal benefit that was obtained (such as the principle of subsidies which are positive externalities)
- Introduction of regulations, constraints, which ban various types of negative practices which cause collective marginal prejudices
- Allocation of pollution rights for the enterprises based on negotiations

b. Monopolist market structures. The existence of any monopoly leads to a very disadvantageous situation for the consumers who suffer welfare loss. Any monopolist acts from a position of force, imposing its prices, particularly when the market is not contestable, meaning that the monopolist is protected by specific entrance barriers which prevent other competitors in the same field of activity to enter that market.

State intervention against monopolies

This type of state intervention is justified by the need to defend the consumer by limiting the power of the monopolies.

The state can correct and situation of monopoly intervening through specific means, such as:

- Regulate monopoly activity;
- Monopoly taxation;
- Nationalization.

By nationalization, the state takes over the enterprise and becomes producer of products or services. Under these conditions, the prices administered by the public enterprises under the direct control of the state also play a function of redistribution, because they can be set at a sufficient low level so as to allow everybody access to that product or service.

c. Collective, public indivisible goods. The public collective goods are goods usable by the collectivities, goods that can not be divided for utilization and which the individuals can not make their own. Consequently, no consumer can be excluded due to the indivisibility of the good and no individual can have a low level of utility by a possible consumption of the good by another individual.

The important characteristics of the public collective goods refer to the fact that:

- The consumption of the public collective goods is available to the entire population;
- The people who refuse to pay for their price can not be excluded;

The following items are in the category of the public collective goods:

- Public lighting;
- The dam protecting from floods;
- The lighthouse showing the entrance to the harbour or signalling reefs in the ocean;
- Road and railroad infrastructure;
- Tap water adduction;
- Sewage ;
- Technical progress

The technical progress can be assimilated to a "public collective good" because knowledge is communicable at a much lower cost than the production cost and it can be used simultaneously by a large number of persons. These peculiarities determine the state to defend their intellectual property rights and support research.

The production of collective goods such as those mentioned above can not be financed from payments by the consumers, from the beneficiaries, if we take into consideration the economic theory of the "**stowaway passenger**" regarding the fact that "***any person who knows that it will benefit of a service whether he/she pays or not for it***" will act so that:

- he/she will say he/she is not interested in the production of that good;

- will hope, secretly, that others will be more altruistic than him/her and will accept to pay;

Thus, every person can hope to benefit from a collective good without having to bear its costs.

State intervention to ensure the collective goods

The state is the only one which has available the means to produce the collective goods, them main financing way is the fiscal route.

A system for the production of collective goods that would work only through an individualist logics, couldn't allow the production of an optimal amount of such goods.

2. The state and the budget policy

The budget policy of the state

The budget policy belongs to the conjectural regulation by which the state endeavours to reach, on the short term, the highest rate of growth and the highest level of engagement, while maintaining the macroeconomic balances: inflation, trade balance and balance of payments, exchange rate, etc.

Many of the economic theories support state budget neutrality which presumes:

- A balance between the budget expenditure and revenue;
- An increase of the expenditure at the same rate with the GDP increase;

The theory of budget neutrality is obsolete now because the state budget is used systematically to regulate the economic activity within limits regulated by the fiscal pressure and by the indebting possibilities of the state.

The state also intervenes through the budget in an attempt to limit the limits of the smaller or larger depressions.

The state can intervene on the budget through **discretionary policies** which are susceptible to reduce strongly the conjectural fluctuations.

The **discretionary policies of the state** may have different weights and they refer to:

- **An accepted budget deficit**, particularly during recession periods, to curb unemployment and to ensure a fresh start of the economic activities, thus providing for the return to prosperity and to the full use of the labour force;
- **Conjectural budget policies**, of Keynesian inspiration whose objective is to maintain the economic activity on a sustainable, increasing trend, based on the following designs:
    - ➢ **If the economy isn't well** and there is unemployment, strategies reducing fiscality and the interest rates can be used to reignite

the economic activity. Due to globalization and to the increasing openness of the economies, an isolated budget reigniting will throw out of balance the foreign exchanges, so that a groundless application of such fiscal-budgetary policies may be inefficient;

- **If the economy grows too fast**, in relation to the available production capacities, inflation speeds so that the unsustainable economic growth has to be slowed, which can be done by a higher fiscality and interest rate;

Public expenditure and productivity in support of the economic growth

The sustainable economic growth is the strongest drive that may generate long-term growths of the standard of living. The theories of the endogenous growth[12], developed by the contemporary economists rehabilitate the global action of the state in the field of the technological research, education and infrastructure.

According to the theories of the endogenous growth which restate the hypothesis of the decreasing yields, if growth is not decreed, then it is not at all spontaneous and it can only be sustained if the ***state favours the long-term investments.***

The new theory of the endogenous growth promoted by Paul Romer, brings important changes:

- **The technological progress is considered to be a product of the economic activity**, unlike the previous theories which had treated technology as being exogenous and produced by forces outside the market. Due to the internalization of the technology within a pattern of economy functioning, the new theory is also known as the ***theory of the endogenous growth***;
- **Technology and knowledge are supposedly characterised by increasing yields**. The new theory of the endogenous growth

[12] *Paul Romer promoted a new theory of the economic growth by the mid 80s, analysing critically the neoclassical patterns of growth and showing that they don't explain clear enough the long-term increase of the productivity rate. He introduced a new class of patterns in which the determining factors of growth are incorporated in the patterns and that is why the patterns were called endogenous.*

reflects the shift from resources-based economy to the knowledge-based economy;

- The theory of the endogenous **contradicts the concept of general, unique and optimal balance**. The emergence of a new knowledge is considered to be a key source for the economic growth admitting thus that at the right time, some small events may change the path of economic growth, reducing thus the prognosis capacity.

Romer's pattern endogenises the technical progress explaining why the developed countries have a sustained growth. He introduced a sector of research and development in which the inventors try to promote new ideas to make a profit.

The pattern of endogenous growth developed and applied by Robert Solow[13], is a new, important step in the process of building patterns of economic growth. The key advantage of this pattern is the identification of the positive effects of the ***higher rate of saving, increase of the population number and of treating technology as a pure public good,*** in influencing the level of the economic growth along a short period of time.

The results obtained by Robert Solow by defining and applying this pattern can be synthesized in the following ideas:

- **By the accumulation of capital, the capital/work ratio increases and work productivity increases.** If the other conditions (technology, human factor quality, natural resources, etc.) remain constant, then the increase of work productivity is done by the increase of capital. This increase works until a point after which work productivity remains constant and the real wages stagnate.
- **Simultaneously with the increase of the capital/work ratio there also is a process of technological** renovation, thus work productivity will increase substantially, ensuring thus the basis for wage raise and standard of living improvement;
- **The technological progress depends on the expenditure allocated to research and on the competency which is gained by practice**;

Within this context, one of the implications of Solow's pattern is that ***the countries on low incomes will grow faster than the countries on high incomes, reaching thus a convergence of the income per capita.***

[13] *For his major contributions to the economic growth, Robert Solow received the Nobel prize for economy in 1987.*

The analysis of the patterns of endogenous growth shows that the **public expenditure is not noxious in the field of education[14], research[15] and infrastructure**, because they:

- Contribute to a higher efficacy and efficiency of the private enterprises;
- They are one of the factors explaining the productivity in the private sector;

Private sector productivity depends particularly on:

- the level of public transportation infrastructure (streets, roads, highways, bridges, railroads, harbours and airports);
- the quality of the national system of education.

3. The state and the monetary policy

The monetary policy[16], designates the action of the public powers on the big economic balances, using a policy of controlling the volume of the circulating currency. It aims to supply currency and credits to the economy.

Central bank's independence

In all European countries the independence of the central bank is a reality after the Maastricht treaty. This treaty stipulates the independence of the European system of the central banks, of the European Central Bank (ECB) and of the national bank of each EU member state.

The analysis of the significance of central banks' independence concerns the continuity and efficacy of the monetary policy with the purpose to guarantee price stability and the power of the single European currency, the Euro, implicitly of the national currencies of the EU member states which hadn't yet joined the Euro zone and it is expressed at several levels:

At the institutional level	The bank doesn't get directions from the Government

[14] *Paul Romer's pattern suggests that if the* ***growth of the population and of the education*** *stop, the generation of new ideas and, implicitly, the economic growth also stops.*

[15] *Paul Romer's pattern suggests that if the* ***research effort would be constant****, the proportional increase of the stock of knowledge required for the long-term economic growth could not be sustained.*

[16] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iaşi, 2002, p. 59.*

	The bank must only contribute to the economic policy of the government The priority goals of the bank are: • Curb the inflation • Protect the currency
At the operational level	The bank has all the instruments required to put the monetary policy into practice: • Setting interest rate level • Administration of the compulsory reserves • Interventions on the monetary market
At the personal level	The bank's governors have the means to hold against foreign pressures The appointment of the governor is irrevocable
At the financial level	The bank has own budget and resources

Because the financial markets are very strong, the only weapon of the public authorities is the **credibility** which ultimately depends on the trust of the international investors in the capacity of the central banks to avoid any inflationist failure.

The **instruments of the monetary policy** are variables which the monetary authorities can manipulate in order to accomplish the set objectives.

There are two large categories of instruments which the monetary policy can use:

- **Control of the volume of currency in circulation**, by which it acts on the liquidity of the banking system;

An independent central bank may act on the need of currency of the commercial banks by varying the level of the **minimal compulsory reserves** of the bank, reserves which are not remunerated, which are blocked at the central bank.

- **Interest rates policy**, which affects the refinancing cost of the banks;

By increasing the interest rates for refinancing, an independent central bank counts on the behaviour of the commercial banks to relay this increase to the credits given by the banks to the clients, which should modify, finally, the behaviour of the customers, reducing thus the number of given loans.

The **objectives of the monetary policy** can be intermediary and final.

The **intermediary objectives**, are targets that allow reaching the final targets:

- Control of the monetary mass in circulation
- Amount of given credits

The **final objectives** correspond to the priorities of a state and they refer to:

- objectives of the monetary policy:
  - fight the inflation;
- objectives of the economic policy in general:
  - economic growth;
  - exchange rate stability;
  - external balance;
  - employment;

4. The state and the structural policies

The structural policies engage the nation on the long-term. They are difficult to reverse and often display large gaps between the moment of decision-making and the yield of the first tangible results[17].

a. Industrial policy

Objectives of the industrial policy

The industrial policy can be analysed at two main levels regarding the:

- measures taken by the state in order to assist directly the industrial enterprises;
- main actions of the state to transform the framework of activity for the industrial enterprises, which also includes the environmental policy;

Means of the industrial policy

- existence of a „***structural public pole*** ”, relying on the existence of the public enterprises
- big technological projects supported by public research and by public orders
- industrial reorganization

[17] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iaşi, 2002, p. 64.*

Given the internationalization of the industry and of the controls of the European authorities, the direct aids for industry are no longer legitimate or possible.

Consequently, the industrial policy of the European states presently orients towards reconstruction by:

- actions concerning the general environment of the enterprises (landscaping, transportation infrastructure, research, etc.);
- actions concerning the improvement of company competitiveness;

b. Policy of landscaping

c. Planning policy

Planning objectives

Planning must not be mistaken for the imperative planning, rather it has to be indicative and decentralised with forecasts of the growth rates.

Planning means

The plan must be a document which draws the general framework of action of the public powers, because the state can not replace the market. The planning forecasts must be general.

Planning results

As the plans develop, they re increasingly less accurate, the sectoral objectives being replaced by general qualitative scenarios and orientations. The planning forecasts are limited due to the openness and interdependencies of the economies.

The state and the competitional commercial policy

In the current theoretical approaches, an increasing number of economists insist on the important role of the state regarding the access to technological progress as means to avoid stronger commercial misbalances under the conditions of an imperfect competition.

The **imperfect competition** determined by the very low number of competing enterprises is characteristic for many international markets, which thus:

- allows reaching a critical dimension of the firms, which is a “competitive advantage” for the better differentiation of the goods demanded on the market

- ensures increasing yields for the enterprises or even over-profits because of the monopoly position they hold
- ensures an easier amortization of the expenditure for research and development
- may raise important barriers to the entrance of new competitors

Under these circumstances, it is very clear that the "enterprises from a dominant industrial country may used low enough prices in order to suppress the profit of the companies from other countries. The latter are then constraint to import large amounts of goods in relation to which they have an increasing technological lag, which will stress once more their inferiority. If the state doesn't intervene, the commercial misbalances may strengthen"[18].

State intervention to ensure company competitiveness

The purpose of state intervention to ensure company competitiveness is their access to the technical and technological progress, as compulsory and necessary prerequisite to:

- eliminate certain technological advantages of the competition
- increase the odds of success of the national companies to penetrate the international markets

The interventionist commercial policy may improve the national welfare and it may be done as:

- ➢ export subsidies by which the state can help the national enterprises to enter or to remain within the world oligopoly
- ➢ customs tariff

The optimal character of the generalised free exchange may be contested when some national or even international companies benefit of advantages which are not directly available to the other companies on the market, such as those regarding the:

- ➢ domestic market protection
- ➢ state aids
- ➢ preferential conditions to obtain the position of market leader

[18] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iaşi, 2002, p. 69.*

5.4. The subsidiary state

The interventionist power of the state is put in a new light at the internal level, because of the need for deconcentration and decentralization, and at the external level, because of the European construction and globalization of the economies.

Globalization belongs to the global companies and the existence of the regional powers prevent the state from self-determination, its action running in correlation with other actors, together with which it forms a cooperative act, more than hierarchical[19]. Under these conditions of development, the action of the interventionist powers must rely on the **principle of subsidiarity**.

Subsidiarity *is a rule, which stipulates that a community of higher ranking must not treat a problem which can be assumed by a lower ranking community.*

Under these conditions, ***the principle of subsidiarity aims to bring decision-making as close as possible to the citizen***, and to permanently check the necessity for community actions according to the possibilities existing at the national, regional or local level. More precisely, there also is the principle according to which the European Union doesn't take actions (except for the areas exclusively of its competence) if they are not more efficient than the actions at the national, regional or local level. This principle is closely linked to the **principles of necessity and proportionality**, according to which none of the actions taken by the European Union must exceed the level required to achieve the treaty goals. Thus, according to the Maastricht Treaty, based on the principle of subsidiarity, in the areas not exclusively of its competence, the European Union intervenes only and only if the objectives of the proposed action can not be accomplished satisfactorily by the member states at the central, regional and local level, but which can be, due to the dimensions and forecast effects, accomplished better at EU level.

This rule emerged as natural consequence of the multiplied levels of public competence at the local, regional, national and European levels, so as to avoid trespassing different authorities and to define an optimal level of intervention.

There is a positive value and a negative value which are associated to the principle of subsidiarity. The **negative value** requires that the

[19] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute Iaşi, 2002, p. 72.*

state can intervene in the life of the individuals only to protect the common good. The **positive value** refers to the fact that the ***state is compelled to ensure the individual a proper general framework in which it can develop optimally*** (streets, transportation, utilities, fundamental rights, social security etc.)

State responsibilities in justifying intervention refer to:

- ensure the equitable access to goods and services
- equitable income distribution
- eliminate the distortions induced by taxation in resource allocation
- correct the geographical misbalances in territory arrangement, misbalances that may aggravate a fully free market play
- improve the family standard of living

Means of intervention of the state

Deconcentration and decentralization

In order to accomplish the objectives of subsidiarity, the state may use several means of action, the most efficient being the deconcentration and decentralization.

Subsidiarity is a directing principle to set a boundary line between state competencies and the competencies of the local communities, principle which this sets who must act, the state or the local collectivities. If the **state has the exclusive competency** in a field, it is clear that it must act through its empowered institutions and the ***principle of subsidiarity doesn't apply***. If the **state and the local collectivities have split competencies**, the principle of subsidiarity set clearly a ***presumption in favour of decentralisation***. The state should act only if the goals can not be accomplished satisfactorily by the local communities according to the criterion of necessity, so that they may be better done by the state according to the criterion of the added value or compared efficacy.

The concept of subsidiarity is dynamic and its evaluation will evolve in time. This concept allows expanding state action, with the limits of its competencies, if the circumstances demand it and, vice versa, the action of the state must be limited or ceased when it doesn't meet anymore the character of subsidiarity.

Proportionality, is a directing principle in determining the way in which the state should exert its competencies, both the exclusive ones and the shared ones. According to this principle the action of the state must not exceed what is necessary for the accomplishment of the planned objectives.

Deconcentration, must not be mistaken for decentralization. Deconcentration aims the transfer of powers, of the financial means and of the staff of the central administrations towards the territorial state administrations with the purpose to make the latter more efficient.

Decentralisation, is the transfer of central power competencies towards local autonomous collectivities headed by authorities chosen by universal vote.

European constraints through regulations and directives[20]

Romania is, according to all the generally accepted standards, a poor country and this makes us wonder how will we be able to get passed this state, particularly under conditions of economic and financial crisis using the opportunities provided by the accession to the EU, while not ignoring the constraints deriving from the way in which the EU functions. It is obvious that ***we have to define more clearly and more professionally our priorities, as a nation***, starting from our new status of EU member state.

The Brussels European Commission submits the national states which are EU members to new rules of the game, constraints, by which they give up powerful means of economic intervention.

The single European market has common regulations, foreign to the national boundaries, which the member states are compelled to apply.

The **common and compulsory regulations of the EU member states** refer to:

- norms for the full opening of borders
- norms for the discontinuation of monopolies
- discontinuation of the protectionist sectorial regulations

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[20] *According to art. 148 from the Constitution of Romania, following the accession of Romania to the European Union, the provisions of all EU constitutive treaties and of the other community regulations are compulsory, they prevail on the contradictory dispositions of the internal laws, while observing the provisions of the accession treaty; the Parliament, the President of Romania, the Government and the legal authorities guarantee the accomplishment of the obligations arising from the act of accession and from the provisions of ll the other compulsory community regulations.*

- sanitary norms
- security norms
- norms which limit the industrial concentration
- solvability reports from the banks
- community norms prevailing over the national constitutional and legislative norms
- directives linking state performance on goals to be reached, in which the state decides on the form and means

Transfers of power within the European Union

Even from its early moments, the European construction presumed the reduction of the member states autonomy and legislative harmonization as follows:

- **in the budgetary-fiscal area**, limiting state intervention was done through:

  -**policy of convergence**, defined by the Maastricht Treaty, which compels the member states to limit their budget deficit and indebtedness;

  -**trends and practices of fiscality harmonization**, induced by the necessity that the national fiscal systems do not impede on the lawful competition and the four liberties stated in the Treaty founding the European Community: free circulation of goods, free circulation of services, free circulation of persons and free circulation of the capitals.

As system of economic and monetary regulation, taxation can be used to influence economic and social processes such as: development of specific economic areas or branches or reduction of others, increase population consumption or encouraging saving, adjusting the way in which the commercial companies are organised and function.

Therefore, the harmonized fiscal policy is important to all member states to prevent the double taxation, tax evasion and the discriminatory use of levying. These problems, contrary to the idea of fiscal equity or economic neutrality, and which seem to grow in stead to decrease, originate from two factors: globalization of the production and the fast development of the commercial exchanges, and the preservation of a fiscal sovereignty of the member states.

When it is about fiscal harmonization, the specialists speak most often of the indirect taxes. The **indirect fiscality** many times distorts the free circulation of goods, the free supply of services, thus requiring a high level of harmonization.

Things are not the same with the direct taxation. The **direct fiscality doesn't need, generally, harmonization**, being strictly applicable within each EU member state. Therefore, most provisions on the direct taxation are completely at the latitude of each member state, being an attribute of their sovereignty.

The community acquis on the direct fiscality aims mainly the tax on profit and the tax on capitals, and less the taxation of the natural persons[21].

- **In the commercial area**, by:
  - -Suppressing the customs rights
  - -Elimination of the national borders
- **In the regulatory area**, the possibilities of supporting the industry have been narrowed by:
  - -Creation of the single market and banning public aids. aids considered as discouraging factor for competition. The only aids authorised by the European Commission are for research and territory arrangement.
- **In the monetary area**, the reduction of state intervention was accomplished by:
  - -Construction of the European Monetary System
  - -Liberalization of the capital movement
  - -Project of monetary union promoted by the Maastricht Treaty.

World constraints to the state intervention

The world constraints on the state autonomy and intervention are determined mainly by the new current trends:

- **The trend of speeding the process of internationalization of productions and services**, by which the productive apparatus becomes increasingly autonomous in relation to the national territory, under the impact of numerous factors, among which:
  - Increased treading capacity of some categories of products and services due to the

[21] *Tulai C., Şerbu S. – Compared fiscality and fiscal harmonization, Casa Cărţii de Ştiinţă Press, Cluj-Napoca, 2005, pg. 173.*

technical progress in various fields, including information technology and communications;

- Increased specialisation and differentiation of the goods and services in response to an increasingly sophisticated demand;
- The globalizing impact of the transnational companies;
- Changes in the governmental policies towards deregulation, privatization, multiplication of the free areas, liberalization of the commercial and investment requirements;
- Permissive state interventions favouring the strategic options of the large transnational companies;

➢ **The trend of financial markets globalization**, because:

- Market deregulation and globalization favoured by the instant circulation of information are the basis for the establishment of a **large international capital market**. This market allows the instant transfer of capitals from one end of the planet to the other. Facts, opinions, analyses and forecasts are communicated simultaneously to everybody interested worldwide. In front of such evolution, the states are increasingly submitted to market judgement.
- **The economic and financial systems are much more integrated in the international markets**, than the policies meant to participate in their regulation and monitoring;
- **The exchange reserves of the central banks became an ignorable fraction** of the capitals in circulation on the international markets. Confronted with this quantitative defiance, the monetary authorities must act in qualitative terms: reputation and coordination[22]. Credibility is the assembly of measures taken by the public powers

[22] *Frédéric Teulon, Le róle de l'État dans l'économie, Editions du Seuil, janvier, 1997, Translation into Romanian by Adriana Manolică, European Institute, 2002, p. 77.*

to inspire confidence to the private economic agents. It leads to seeking the great equilibriums: moderate inflation, controlled indebtedness, stopped public deficits.