

Impact of economic models on European Union economies development

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Abstract. *The horizon of 2050 is projected a new vision of the economy, supported by a coordination of economic policies in order to generate sustainable growth, employment levels, social cohesion, which would contribute to economic and financial recovery of European Union.*

Challenges facing the Union are higher than before the recession, while the margin of maneuver is limited. Enhanced role of Union demonstrate increasingly economic and politic power of emerging countries.

Keywords: economic crisis; global development; economic models; sustainable development.

JEL Codes: E31, J20.

REL Codes: 18C, 20B.

1. Introduction

Since 2000, the European Union assumed profound transformation stage in the economic system, by ensuring economic and social cohesion. The aim is both compatible with EU overall development and harmonization of new members in full and global level.

Therefore, the most important challenge for the countries of Central and Eastern Europe is foreshadowed economic harmonization with international standards (challenge based on knowledge) any other obstacles that can slow this process will compromise the chances of rapid catching income between countries and regions in the EU.

Over time it was justified the existence of three types of capitalist systems: the social-democratic (which includes the Nordic countries), the conservative (continental European countries) and liberal welfare system that includes Anglo-Saxon countries.

Within the EU there are two systems: the Mediterranean, which includes southern countries, and the “catching-up”, which includes the new Member States, former communist.

Today the world is facing three models (Dinu, 2004, p. 28) of economy and society, being in the same time also social and economic development models: the European model, American model and Asian model.

2. Models and sub-models of competitive economies

The European model includes three elements: economic growth, political freedom and social cohesion. American model include economic growth and political freedom, excluding social cohesion, while Asian model includes economic growth and social cohesion, excluding political freedom. This last model is the regional model that propels China's pivotal position in Asian regional economy. Even specific variants Japan and South Korea and the Asian tigers meet Chinese model features. It is allowed dirigisme, interventionism, single-party or authoritarianism.

We note that two of the three models are characterized by exclusion, the US and Asia, the European model is only inclusive nature. Exclusive models are antagonistic and ideological resonance. US neoliberal model instance is emphasizing the virtues of the market, and the Asian is socialist, placing high value on control decision, resources and political freedoms. History has shown that exclusive models have greater dynamic results; inclusive model is the model of the third way, an alternative to exclusive models.

According to the social cohesion, European and Asian models have social purpose, and the American model is exclusively yield. In terms of political

freedom American and European models are based on individual judgment and price, Asian one put options against individual rule society, politically guided. If we consider the face of economic growth, American and European models are based solely on competitive market mechanisms for resource allocation, while Asian model attaches importance gradual involvement in the certification market controlled allocation of resources.

Northern sub-model in the European Union has shown that the most effective sub-model generates both social equity and macroeconomic efficiency.

Nordic sub-model (Scandinavian) includes Sweden, Netherlands, Denmark and Finland and is characterized by a high degree of redistribution is the most efficient system of social protection, promoting social inclusion, provides social services to all categories of citizens and open dialogue and social cooperation between social partners and the government (Figure 1).

This type of economy stands among the most competitive European economy. It is able to not sacrifice social cohesion to improve economic performance of countries that have adopted this sub-model.

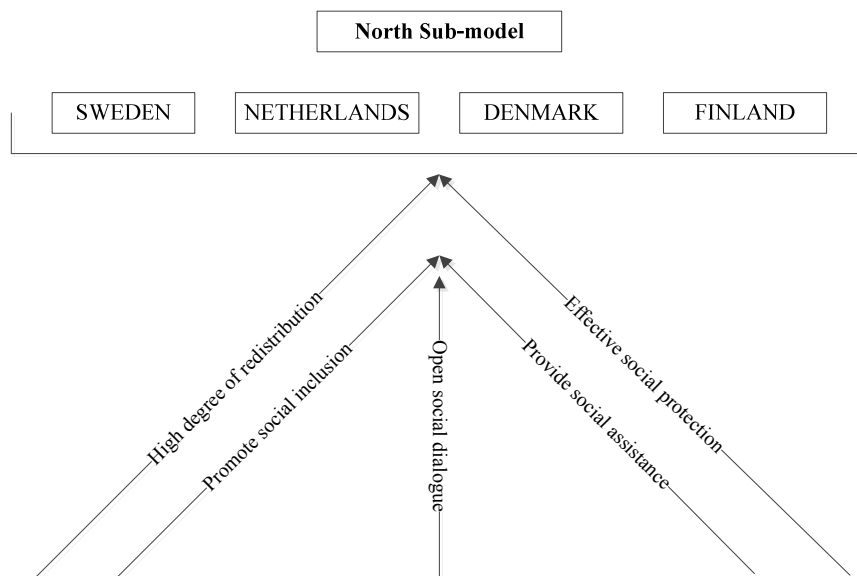


Figure 1. *Nordic sub-model*

Anglo-Saxon sub-model (UK and Ireland) reflects a liberal approach to welfare system, where social assistance is limited and state responsibility is transferred to the care of the individual in that it has a private system – well done – insurance risks of any kind (Figure 2).

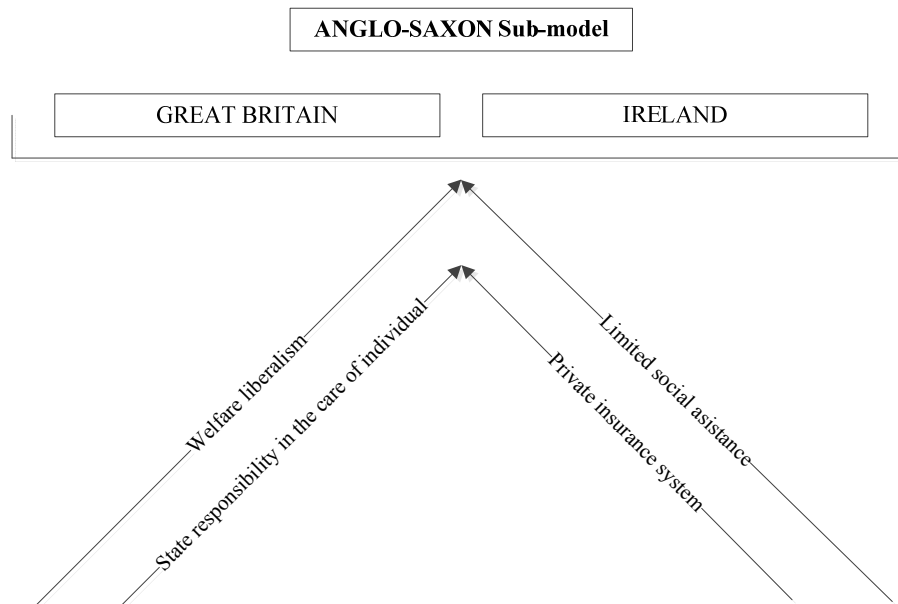


Figure 2. *Anglo-Saxon sub-model*

The same principle, individual responsibility, and labor apply where the decision to seek a job belongs to the individual. State allocates small amounts of labor market regulation policies. In Ireland, government intervention has improved the country's economy so that it has become the second largest economy in Europe in terms of economic development.

Employment of labor is relatively high in Anglo-Saxon countries due to a reduced income tax and due to low unemployment ratio in relation to salary. The Anglo-Saxon countries have the lowest unemployment rates due to small amounts of unemployment benefits paid by the state.

Efficiency feature is successfully achieved by this sub-model but when it comes to fairness, this sub-model shows notable differences in the distribution of income in society.

Continental sub-model includes France, Germany, Austria, Belgium and Luxembourg. In this model, employment of labor is the basis of social transfers and benefits granted are much smaller, being dependent on the income obtained previously. The labor market is regulated by the state so that it has reduced workers flexibility (Figure 3).

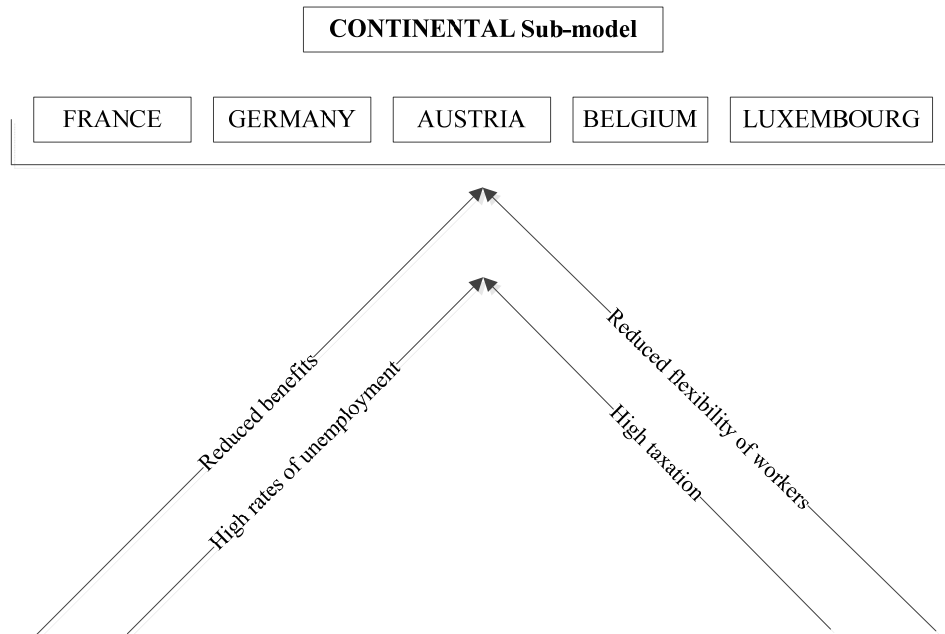


Figure 3. *Continental sub-model*

Taxation is high (compared to that of countries that have adopted north sub-model), and this leads to a lower capacity to create jobs in the private sector.

Unemployment benefits are quite high in relation to wages, which is urging citizens to stay home instead of looking for a job and, of course, this involves high unemployment rates.

Countries in continental sub-model have a lower income inequality than Anglo-Saxon countries sub-model due to higher spending on social protection made in the past.

Southern sub-model includes Greece, Italy, Spain, Portugal, Malta and Cyprus. The state has a minimal role in terms of social protection, with social benefits only to certain categories of people. The labor market is controlled by the state is highly fragmented and rigid. Wage negotiations are centralized (Figure 4).

In this sub-model state functions are taken to some extent by the family. An important role in social and productive throughout is played by the family.

Long-term unemployment is particularly high among young people, while social spending is low budget. The labor market is rigid because the state is regulating this market.

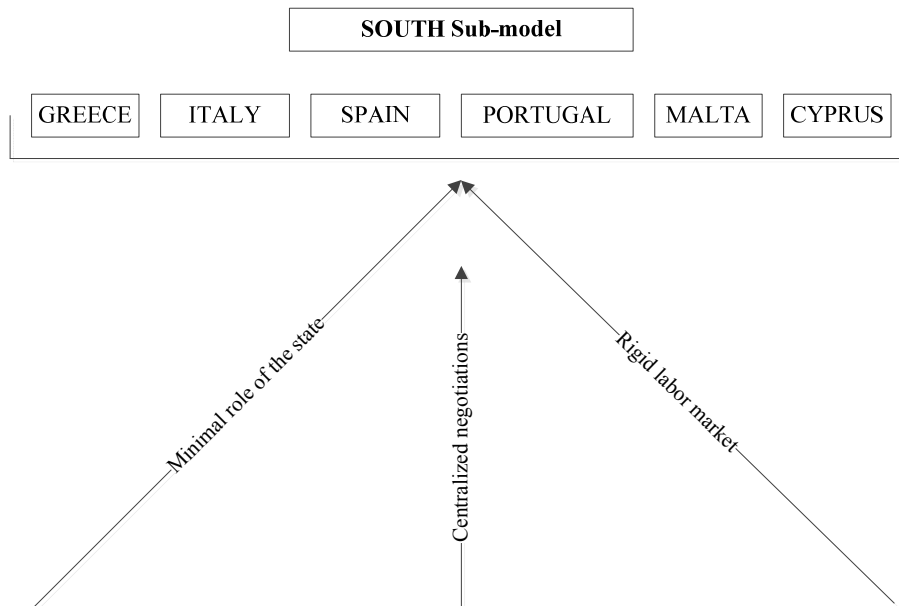


Figure 4. *South sub-model*

Differences in income are explained in terms of a smaller state and a redistributive economic system unable to significantly increase the employment rate of workers. In some countries such as Italy, Portugal and Spain income differences can be explained by the existence of large regional differences.

Catching-up sub-model (Central and Eastern Europe – CEE) comprises the Czech Republic, Slovakia, Slovenia, Hungary, Poland, Estonia, Lithuania, Latvia, Romania and Bulgaria. Although these economies have undergone a process of transition to a market economy, however there are significant differences in terms of the organization of national wealth (Figure 5).

Some countries such as Hungary and Slovenia have opted to increase spending on social protection, while others, such as the Baltic countries, have relied on keeping them low and fostering the development of catching up by promoting an income tax similar to the Anglo-Saxon sub-model.

However, the overall analysis of catching-up sub-model suggests regulated labor markets, the presence of institutions of social dialogue still lagging behind the reality of a low security.

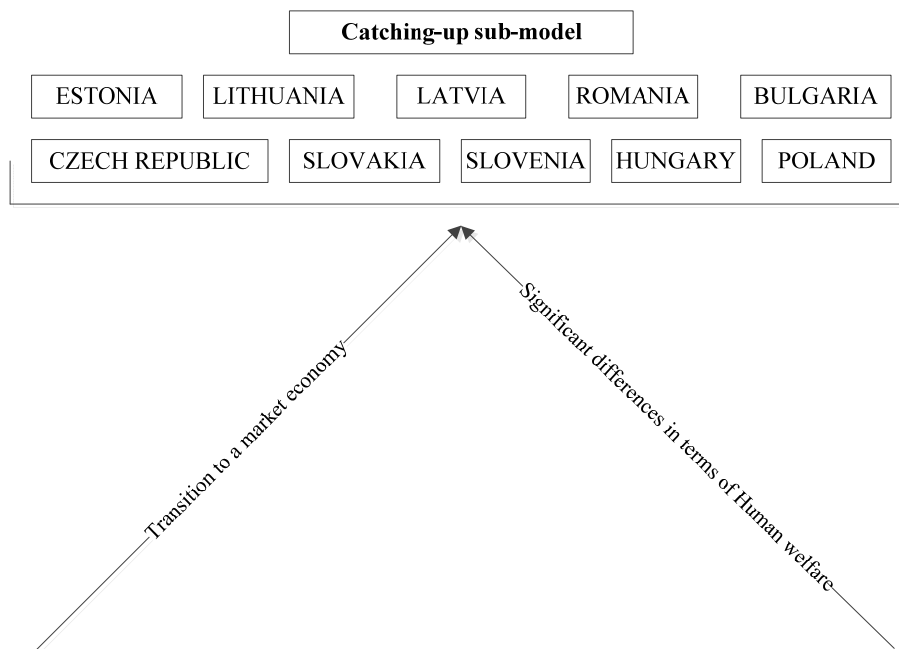


Figure 5. *Catching-up sub-model*

For Slovenia and the Czech Republic, employment rates are highest, the most significant increases is recorded in Bulgaria and the Baltic countries, where occupancy approached the continental sub-model.

In the catching-up sub-model one can define two groups of countries: one that includes the Visegrad Group countries (Hungary, Czech Republic, Slovakia, Poland) and the other – economies that implemented flat tax (the Baltic States, Romania and Bulgaria).

Nordic sub-model and Anglo-Saxon sub-model both proved to be capable of generating economic efficiency and social equity, although in Anglo-Saxon sub-model the social responsibility is transferred to individual.

Continental sub-model showed lower performance compared with the Nordic sub-model with high rates of unemployment and high taxation.

Southern sub-model and catching-up sub-model differ significantly from the social-democratic in the organization of the national wealth. Low performance in terms of reducing inequalities of income and the high degree of corruption in these sub-models are an example not to be followed by other EU countries.

From all the foregoing results that the homogenization of the European model will be difficult because the transfer of common values specific for the last two sub-models to the other three may encounter institutional resistance.

The European model is the ingredient for expanding monetary economy and the real economy relies on consistency, solidity and stability that generates nominal economy. Europeans thought the system as a balance between income and productivity, a system that puts aspiring work and products, certifying employment and offering sustainable business and reliable products. It is the economy where risk is calculated and minimized, it is product economy.

End of growth and beginning of decline for the total and working age population in the EU and candidate countries for the period 1999-2050 has the following track:

- Romanian population decreased to an alarming rate and will continue to decline as a result of the aging process without a satisfactory birth rate.
- Total active population will decrease as a result of reduction population over 65 years, but active population aged 15-64 will increase, the participation rate reaching 65% in 2013.
- Young population reduces both numerically and as a proportion of the total population.
- Very low birth rate, reaction to pro-natalist policies promoted voluntary in the 60s and 80s and migration, both of which are a result of extremely harsh living conditions inherited from the dictatorship regime and uncertainty of transition period (very long in Romania) which leads to the emergence of generations rather than numerically smaller, despite the existence of a population of childbearing age (i.e., especially young people) very large.

Following this series of shocks, demographic decline, affecting long-term economic developments, is difficult to reverse.

Total population decline since 2025 will generalize to a long term horizon. But in regard to the situation of the working age population, the effect is almost immediate, in medium term, starting 2011 to widespread phenomenon occurring. New demographic trends, with high probability, announce a significant change society structures.

3. Europe 2020, a new model of economic development

This strategy encompasses a new vision of Europe's economy in the next decade, based on closer coordination of economic policies in order to generate growth, employment levels, high social cohesion, which would contribute to economic and financial recovery of Union Europe.

Given the persistence of negative effects on labor market, policies and the implementation thereof must have an important role to constitute a means of correcting current trends and prevent potential negative effects. Europe 2020

Strategy aims, for the reasons listed above, increasing young labor employment, older workers and low skilled people.

In terms of the key indicators of labor market developments (employment and unemployment), Romania recorded between 2000-2007 an average of about 60% of employment and about 7% unemployment rate.

Employment situation is similar to that of Spain (in the Mediterranean sub-model), Belgium (continental sub-model), or the catching-up sub-model of CEE states, Lithuania, Latvia and Slovenia, also with values close to 60% occupancy. Besides the employment rate, unemployment levels are similar to those in the Czech Republic, Malta, Belgium and Romania overall positioning registering during this period sub-model values between Mediterranean and continental, with unemployment rates significantly lower than those of states like Hungary (16%), Lithuania (11%), Latvia and Spain (10%), Poland (16%) and Bulgaria (13%).

Regarding employment, among the most important issues on the labor market in Romania there can be mentioned the reduced flexibility, late youth entering the labor market later, weak intensity of dialogue between social partners or weak correlation between demand for labor force and offer training, etc.

The financial crisis has had a major impact on the ability of European enterprises and governments to finance investment and innovation projects. To achieve its objectives for Europe 2020, the EU will need: a regulatory environment that promotes efficiency and safety of financial markets, innovative instruments to finance the necessary investments – including through public-private partnerships.

In 2012, the European Commission presented new data for 2011, GDP growth was 2.5%, contributing to this result the agricultural production, industry, gross investment return of capital formation and private consumption.

For 2012 it was projected an increase of only 1.4% of GDP mainly relying on domestic demand growth. In terms of net exports, it will contribute further negative while the exports to the EU, representing 70% of Romania's total exports, will fall much more than imports supported by domestic demand, the current account deficit reached the level of 5%. GDP growth for 2013 is expected to reach 2.9% as domestic demand continues to recover.

If from the point of view of inflation it is estimated that in 2012 and 2013 the level will be that of the central bank targets inflation ($3.0\% \pm 1$ pp in 2012 and $2.5\% \pm 1$ pp in 2013), regarding the labor market we have some problems inherent following the measures taken in recent years.

The unemployment rate for people between 15-74 years was 7.4% in 2011 and is forecasted values of 7.2% for 2012 and 7.1% in 2013. But alarming problem is represented by the population under 25 years who have an unemployment rate of 25.4%, while the overall rate of employees was 58.5% last year.

Intermediate stages of the employment to population aged 20-64 years were determined overall and by sex and are presented in the table below (Table 1).

Table 1

Forecasting the employment rate by gender for age group 20-64 years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Men	71,2	71,6	72,0	72,4	73,0	73,4	73,8	74,1	74,4	74,6	74,8
Women	56,0	56,1	56,5	57,0	57,8	58,8	60,0	61,2	62,5	63,9	65,5
Total	63,6	63,9	64,3	64,7	64,7	66,2	67,0	67,8	68,5	69,3	70,0

Source: National Prognosis Commission, available at <http://www.dae.gov.ro/admin/files/Tinta%20ocupare.pdf>.

Realistic scenario for national employment target by 2020 proposed a total employment rate for the population aged 20-64 years by 70%, 74.8% men and 65.5% women. We notice a reduction in the “scissors” gender employment by about 14 percentage points (which were average last six years both for Romania and the EU-27) to about 9 percentage points.

Depending on macroeconomic developments and the degree of achievement of other objectives assumed in 2020, a pessimistic scenario provides an employment rate of 68% and an optimistic scenario an employment rate of 71.5%.

The objective of increasing the employment rate is conditioned mainly by the favorable development of the economy, particularly when resuming growth and recovery by increasing education levels and access to forms of lifelong learning by providing access to benefits and social services in a way that does not reduce the attractiveness of working and ensuring effective transition to the labor market, especially by implementing active employment measures in an appropriate manner in terms of financial and adaptation to individual requirements and dynamics labor market.

If all these conditions are met, the employment rate always will increase during 2012-2020. At this time there are no structural breaks in dynamic growth, growth being a “smooth” of 0.49% per year for men, 1.58% per year for women and 0.96% annual total employed population.

Forecast data from the National Prognosis Commission shows that, by 2014, the employment rate for men will continue to grow faster than the employment rate for women, but since 2015 the trend is reversed. The difference between the employment rate for men and women will reduce annual, average of 1.09%, which is a positive trend in line with the European principle of increased gender equality.

Even if Romania will fulfill the national target adopted regarding employment rate of 70% for 2020, this proportion reaches only 93.3 EU target of 75%, leaving a lag of 5 percentage points in the employment rate in group aged 20-64 years.

4. Prospects for European model

For the European model can provide both social cohesion and competitiveness, it is necessary to amend the European Union's economic system consistent with economic policies and features of the new cycle.

Promoted reforms should eliminate inertia of European economy, involving of course also certain economic and social costs of adjustment. Even if they are high in the short-term, however, it is the basic condition for the sustainability of the European social model.

From Nordic economies sub-model experience in implementing these reforms the following lessons can be drawn:

- Increase productivity helps reduction income inequality;
- Active labor market policies result in a shorter search time between jobs and hence the decrease of long-term unemployment rate;
- Labor market flexibility and social security are not conflicting goals;
- Continuous training and development of employees skills are essential conditions for the existence of a high level of adaptability to changing labor;
- Growth rate of labor market participation is a way to relieve the pressure generated by demographic developments.

Absolute stake regarding globalization and the spread of the European model as a global model is functionality of another principle which ensures overcome bottlenecks within which the international regime evolution is and constitution of international order. European model appears as a new formula to organize the world in order to solve otherwise non-confrontational, resource allocation, as well as development issues that have not solved the principle of adversity. The European model is therefore a viable constitution which supposes a global society, to manage the global economy, as well as all other departments of global governance.

5. Conclusions

Europe is faced with clear options, but difficult. The first is to collectively face the immediate challenge of the recovery and long-term challenges – globalization, pressure on resources, aging – to offset recent losses, regain competitiveness, boost productivity and the EU enrolment on an upward path of prosperity (“sustainable recovery”).

The second option is to continue reforms in a slow and largely uncoordinated rithm, representing a permanent loss in wealth, a sluggish growth rate (“sluggish recovery”), which can lead to high levels of unemployment and social distress and a relative decline on the world stage (“lost decade”).

Europe has much strength: talent and creativity of a strong industrial base, a vibrant services sector, a thriving agricultural sector and high quality, a strong maritime tradition, the single market and common currency, the position of the largest trading bloc in the world and leading destination for foreign direct investment. Many EU member states are among the most innovative and developed economies in the world. But Europe has the best chance to succeed if it acts collectively – as a Union.

At this point we can issue the following recommendations:

- Romania should try to increase quantification national targets for the Europe 2020 objectives as economic, financial and institutional matters improve. In this way, Romania will contribute to its greater modernization and integration to the European Union and will have a greater contribution to the implementation of European document.
- Europe 2020 strategy document should be seen as central planning and public policy fields filled with clear objectives prioritized in national perspective.
- To promote an integrated system of planning that brings together national policies with European policies in terms of united coordination.
- Specific reform measures and promoting public policy approach must be focused on policy makers.

As the universe of meanings, as phenomenology and the finality, the European model viewed as a global model appears to be nothing more than global and globalism, as compared to any other historical form they took during the pre-global principle structured adversity.

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