

ANTI-CRISIS MEASURES TO IMPEL REGIONAL DEVELOPMENT

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Abstract

Our country passes through a critical period of crisis, with major effects for the capitalization of human resources, natural, material or financial resources. The current economic crisis was integrated in the long economic cycle, which begun at the end of the 20th century and the beginning of the 21st century, preparing the beginning of the new long term cycle of the 21st century. The paper reveals the potential effects which the current crisis might generate on middle and long term if the local community does not take the proper measures to stop the current crisis. However, the research proposes a few possible sustainable solutions that might be adopted in the regional anti-crisis strategy. Starting with the experience of EU countries in anti-crisis measures, the study considers that sustainable solutions might be taken in three directions: economic, social and ecological. A real issue for the implementation of sustainable solutions in Romania is the lack of a credible authority able to unite “under the same umbrella” the solutions proposed by various partners. The implementation of these solutions can be carried out in different ways: through partnerships or through the creation of autonomous territorial units, with their own functioning structures (i.e. associations).

Key words: anti-crisis measures, regional strategy for development, treble efficiency, sustainable development, sustainable solutions

The regions and towns of all the countries in the world have been greatly struck by the economic and financial crisis triggered in 2007, whose effects did not linger to appear: unemployment has been and is still mounting while companies have to deal with low turnovers and cash restrictions. Local and regional authorities encounter more and more difficulties when they have to manage current expenses. In most European countries, regional and local finances have registered lower receipts, increased social expenses and poorer budgetary allowances. As a result, the governments of EU member states have taken a series of measures, at local and regional levels, aiming to ease and to stop the crisis.

The main anti-crisis measures with a major social impact taken in Romania have been reducing the wages of state employees by 25%, increasing the VAT from 19% to 24%, and increasing some taxes and charges. In what regards strengthening measures, the ones that will have an immediate effect during the next months focus on the state paying its debts to big companies and the creation of a SME card for young entrepreneurs. These measures are not enough to prevent the negative long-term effects that will appear at the level of development regions. Among the main effects of the current anti-crisis measures at the regional and local level we mention the following:

1) The first effect produced by the current anti-crisis measures refers to the escalation of regional disparities in what regards family consumption. According to a study of the B.N.S, in the most optimistic scenario, the reduction of wages by 25% would lead to a decrease of 10% in family consumption, in richer regions, and this would generate a decrease of more than 1% in the Gross Domestic Product during the next seven months. In the pessimistic forecast, the consumption would decline by 25% in all the regions, and this would result in a decrease of 2.63% in the GDP. These variation margins are neatly differentiated by regions, the most striking decreases being registered in the poorest regions, with a low development level.

2) Another effect of the current crisis refers to the closure or relocation of important businesses that support a series of regions and that are being attracted especially by neighbouring countries. Some multinational companies of the South and South-East Region moved to Bulgaria as early as 2008 and the beginning of 2009 because there the reimbursement of the value added tax is carried out more rapidly. Some businessmen from the areas and regions of Ardeal have announced that they would move to Hungary or Serbia. By the end of September 2010, even a greater number of companies will relocate, as the increase in taxes and charges will make things worse in the entire country and in all development regions. The

increase of the VAT from 19% to 24% will lead to an increase by 2-3% in prices and implicitly to the decline of the purchasing power. Imposing new taxes to small local companies could result in their closure.

3) The sharpest social impact of the crisis refers to the escalation of interregional disparities regarding unemployment. Unemployment emerges as a result of the dramatic decline of sales, being the first measure taken by company owners in times of crisis. In the regions with low employment rates, such as the North-East and South Region, unemployment will mount more than in the central and western regions of the country.

4) Other effects generated at the regional level by the current measures refer to the reinforcement of the restrictions related to cash and the difficulties encountered in the management of current expenses. Romania should enter the ERM 2 (the European Exchange Rate Mechanism – the Euro antechamber) at the beginning of 2012 and, for two years, the exchange rate should not fluctuate with more than 15% over or below a previously established level. Or, after the announcement of the anti-crisis measures, the exchange rate grew with more than 15% and in the future the increase in taxes and charges will lead to further fluctuations over this level.

At the level of EU countries, the main tool used in the adoption of anti-crisis measures was the “European Economic Recovery Plan in Regions & Cities”, designed by the Committee of the Regions. In our country, apart the measures of austerity that were adopted, the authorities also published a plan of measures to restore the economy. The priorities include paying the state’s debts to companies, and granting some facilities and tax exemptions to young people. The state’s debts to companies exceed the amount of 1.5 billion Euros. Applying this measure might result in maintaining big companies that support entire regions. In what regards immediate investment, the plan states that 1.5 billion Euros will be offered to finish the roads and highways under construction and to build new ones (finalizing the ring roads of Sibiu, Oradea, Cluj, Lugoj, 20 de kilometres of the North Bucharest ring road, a few kilometres of the ring roads of the towns of Suceava and Caransebeș, and building over 470 de kilometres of new asphalted national roads). Within this plan, we notice that the richest regions benefit from money support while poorer regions, like the southern Oltenia or the North East region are neglected.

One of the measures with beneficial social and economic middle and long term effects stated in the restoration plan refers to the granting of

three billion Euros for investment in energy-producing state companies, in the rural economy and in environmental projects. At the regional level, this measure could be supported by supplemental initiatives: tax exemptions for the businesses that find solutions to use alternative sources of energy, to recycle, and to purchase environmental-friendly technologies.

According to the plan of anti-crisis measures, the young people who wish to start up small enterprise will receive fiscal incentives, being exempt from paying some taxes and charges. At the level of local and regional authorities, there could be established advisory committees formed by groups of specialists who could help the young entrepreneurs to speed the start-up of their business. Among the supplemental solutions that could be adopted at the regional level we suggest establishing priority areas with priority development needs by consulting the main economic stakeholders and the citizens. Another way of speeding up the implementation of this measure is to encourage the start up of innovative companies of the spin-off type, by separating the groups of employers who support innovative business ideas from the source company.

In the social field, the main anti-crisis measure states that the state should pay, instead of employers, the social insurance contributions of the companies that employ unemployed people.

Starting from the study of the anti-crisis measures taken in some regional European countries and of the results obtained after having applied these measures, this article proposes a set of anti-crisis measures at the regional level that could be successfully implemented to impel sustainable development.

MATERIAL AND METHOD

The article uses descriptive analysis, observation and empirical and scientific documentation methods. The main sources of data were the results of the EU study regarding the “European Economic Recovery Plan in Regions & Cities”. The study was conducted in the spell 1 October - 30 November 2009. The sample included local and regional authorities from 19 EU member states, and 74 questionnaires were processed. The results offer an image of the crisis impact trends in big cities (like Bruxelles, Eindhoven, Lodz, München), in small town (Košice from Slovakia, Gijón from Spain, Solna from Sweden), and in some regions of Western Europe (like Flanders, Higher Normandy), of Central and Eastern Europe (Masovia, North Renania - Westfalia), of Northern Europe (Uusimaa, Smaland) and of Southern Europe (Catalonia, Lombardia). Based on the study results, in April

2009, the Committee of the Regions adopted the Opinion on the European Economic Recovery Plan and the Role of Local and Regional Authorities (CdR 12/2009, rapporteur -. Dietmar Brockes, DE/ALDE, available at <https://toad.cor.europa.eu/> in which it demands taking into account the crucial role of local and regional authorities in the fight against the financial and economic crisis.

According to the study of anti-crisis measures from the „European Economic Recovery Plan” we infer the following results:

a) 85% of respondents (local and regional governments) have adopted anti-crisis measures locally and regionally, and 60% of them have adopted ample strategies and anti-crisis action plans (local or regional), while the others have employed to a great extent the existing political tools;

b) The European Social Fund and the European Regional Development Fund have been largely employed as a financial support for local and regional measures;

c) The impact of the crisis was differentiated based on the level of development, the economic structure of the region and the different territorial distribution of economic sectors;

d) The most common measures stated in the European Economic Recovery Plan are large scale infrastructure projects and extraordinary investments in rural areas;

e) A small number of local and regional authorities have adopted long term projects regarding innovation or measures regarding energetic efficiency;

f) The main measures regarding unemployment have focused on offering financial support to SMEs and maintaining existing jobs;

g) Excessive austerity is as dangerous for the population and the private sector as the lack of rigour in budget expenses.

None of the anti-crisis plans of European countries includes environmental projects. In some states, however, there are some cost-reducing measures based on ecologic projects in other, poorer, regions. Thus, Spain decided to reduce with 600 million Euros the donations offered to development projects in third world countries.

RESULTS AND DISCUSSIONS

The conclusions that can be detached from the analysis related to the study regarding the anti-crisis measures of the European Economic Recovery Plan are:

1) In order to achieve the economic recovery, in the EU, it is necessary for the local and regional authorities to cooperate and to establish partnerships with the private sector.

2) The effects of the crisis might lead to poor territorial cohesion if they are not counteracted by policies able to address specific issues in a specific manner.

3) Too high a level of austerity might amplify the negative effects of the crisis and might result in its escalation. When analysing the anti-crisis measures taken in various European countries we see that they are mainly focused on the massive reduction of expenses and on a moderate austerity regime that would allow economic recovery. Excessive austerity brings disaster, thinks Joseph Stiglitz, Nobel prize for economy, adding that since the Great Depression of the '30s we should have learned what not to do. (Adumitrăcesei I, 2009).

Employing empirical documentation methods and direct observation we have made a synthesis of anti-crisis measures that can be applied regionally and that can employ the principle of treble efficiency:

1) To develop partnerships able to produce sustainable solutions focusing on the three sides of efficiency: economic, social and ecologic. In Romania there are companies entirely or partially owned by the state, privately-owned company, unions and owner associations, associations of producers and processors, of farmers, non-governmental organizations, universities and research institutes, other educational establishments, local governments, etc. A sustainable solution focused on the economy and aiming to ease the effects of the crisis and to achieve sustainable development could be carried out through a mixed partnership between the local government, producers, specialists, stores. The effect of common actions would be: price reduction – increasing competitiveness – increasing profit rates while common actions could be implemented in several fields. For example, in agriculture, in the Iași County, starting from the 85 thousand hectares of arable land in 93 communes, the local government could establish, through a process of planning at the local, regional and national level, the necessary of agricultural products and the structure of cultures on these surfaces. Further on, with the support of seed and herbicide producers and of farming specialists (from universities and public institutions) these fields could be cultivated according to needs. The producers might be stimulated by tax exemptions if they cultivate according to the need. Further on, by establishing a direct line of sales for the products, from the farmer to the processor and the stores and by eliminating intermediaries, competitiveness will grow, the offer will strictly meet the needs identified and the prices of first necessity agricultural products will plummet. Profit rates could mount, as the plan would eliminate the uncertainty related to the lack of a market, of storage and processing units, and, at the same time,

as the rapid degradation of food products is eliminated. On the social side, such a partnership model could include the local government – farmers – transporters – retired citizens, disabled people or any other desired target group. In Iași, bearing in mind the large number of retired people, a solution could aim to deliver food products at the homes of various target groups (senior citizens, disabled people) at various intervals, according to a timetable established with them.

The more the partners, the greater the cost reductions and the chances of higher profit rates. It would be advisable to use a generic partnership cooperation model that would allow the integration of the existing knowledge potential, available to the various social factors, including the citizens.

2) Regional streamlining by adopting system solutions within the areas that form the region. System solutions can be applied in every field. For example, in Belgium, the solutions of collecting the mail in public transportation means are well known and they have lead to important savings on the expenses related to the wages of mailmen, the collection and the selection of mail. It is also a beneficial solution for the citizens, who spare the time needed to go to the postal office. Implementing system solutions in times of crisis might be a salutary idea especially for small and medium enterprises that would not be compelled to move their business in other areas.

3) It would be very useful to adopt a polycentric territorial development model in the prevention of crisis effects. Choosing polycentric development as a strategic regional option supposes supporting the development round a network of development poles that, by strategic competitive advantages are also able to support their neighbouring areas. So, efforts should focus on identifying the influence poles that would play the role of development poles including for their neighbouring areas and on directing resources especially towards competitive and population support branches. By this we also think of developing those activities that favour the development of the rural-urban connection so that the areas are able to mutually support each other in the development process.

3) Strengthening social cohesion by periodically informing, co-opting, and involving the citizens in the various activities and services of the local and regional government is another necessary anti-crisis measure. Most of the people living in local and regional communities are lacking basic economic knowledge and this – in

times of crisis - might lead to great social movements or to panic generated actions. This phenomenon was clearly seen in October and November last year, when massive amounts of cash were withdrawn from Romanian banks.

4) In order to reduce expenses at the level of regional government, another solution is to externalize some services considered to be too expensive and not so beneficial.

5) Eliminating bureaucratic procedures, excessive formalism and introducing electronic digital instruments to facilitate payments and some services to the citizens. A rapidly applicable measure in times of crisis is to increase the degree of informatization of the system of tax declaration and collection that would lead to cost-reduction and higher receipts. The money saved could be used to support other budgetary areas (health, education).

CONCLUSIONS

Implementing anti-crisis measures at the regional level is greatly influenced by the current restrictions imposed by the continuation of the In order to leave behind the negative records related to the budget deficit, the easiest solution is represented by the massive reduction of budget expenses so that external loans would no longer be needed (IMF or MB). Another conclusion is that an excessively tough austerity regime deepens and does not solve the crisis. We believe that a salutary solution at the regional level would be to create solid partnerships that would generate system solutions for a sustainable development. Another suggested solution is the creation of development poles that is of richer areas from an economic point of view, with a firmly established cultural identity and with possibilities to support the development of their neighbouring areas.

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