Toxic economy - interferences with recent Romanian experience

~ *Ph. D.* **Cristian Gheorghe Iacob** *(Romanian Academy, National Institute for Economic Research "Costin C. Kiriţescu", Bucharest, Romania)*

E-mail: cristiang.iacob@gmail.com

Abstract:

What is the toxic economy?

Economy through which the legislation and control in place, fails to provide a standard of living with sustainable uptrend, getting to transform assets into cash whose value is consumed unproductively.

Why we do not live well?

Good life is in fact the standard of living of the economic and political offered by the laws of a state or groups of states, citizens living on a certain territory. The standard of living is a result of variety of factors, difficult to quantify both separately and in particular unit. In this article we will try to define the fractal complexity of how the toxic economy is affecting the standard of leaving

Key words: economy toxic, toxic products, toxic assets, cash toxic.

Motivation

The state is the authority entitled to measure the standard of living of a nation. Laws have a very important role in the economic development of a country, correlated with the political environment. The issue is whether the economic growth and the law is permissive in polarizing the wealth of a nation or is encouraging equitable distribution.

Among the most serious problems arising in the world, after the third industrial wave was the global instigating tendency for regional toxic economies formation. This is mostly applicable to the country from the ex-communist block that was faced with important structural problems. The way those countries fait to overpass all the problems, creates in some cases, like Romania, other structural inconveniencies. Such inconveniences define the toxic economy. The purpose of this study is to bring into attention the adverse effect, of apparent well intentioned actions in the short run that brings negative effects, especially on the mass of population, like downturn in the standard of living.

A balanced economy traditionally organized as republic or monarchy, in great respect is following some major rules like the ones presented below:

➤Money treasured in the form of currency in major national banks;

➤Banks lead a monetary policy that focus on investments for the production of means of production, and the production of goods for consumption for domestic and / or export.

➤Production sector is obliged to use the local labor force contributing to budget revenues through a series of charges, with significant share in the budget of the respective country.

➤The products of the same kind that entered through imports are cleared and excised, so as to reach a price level close to or higher than comparable domestic product, market and stock market are those who decide to sell existing products in the market transparency and the normal control of sales. In this way it is possible to balance the export of domestic products with imports with additional positive consequences: proper use of labor; better collection of taxes both internally and from importers; State control; industrial development plans to ensure competitive advantage, endeavors that labor productivity to reach a level close to the external productivity;

➤Foreign loans are loans made to national road infrastructure and infrastructure for production without being intended to other unproductive destination like: pay of pensions, wages, social contribution. This approach will enable every citizen to contribute to raising living standards work for personal or group.

➤Monetary policy is guided and controlled to give credits for sustainable development projects meant for environmentally friendly production.

➤Banks with cheap loans to support production but also to be a guarantor of the development of economic relations of production in the long term.

➤Macroeconomic policy is one that adjusts the transparency of monetary markets, capital and control mechanisms on both participants to the market as customers but also the regulatory authorities.

Along with the feature of the economy as mentioned above, toxic economy is making its way through, starting from the good intention of the classic economy.

Viewed generally the two types of economies do not differ much, only difference being that, while classical economy tends to increase the standard of living for the citizens of the respective state, the toxic economy tends to diminish this indicator and to polarize the national wealth by a privileged segment. Of course, there are also a lot of other adverse effects that eill be described below in this study. So toxic is creating an impasse social economy can be scaled only by a short circuit at the dramatic political will or by a revolution.

Without considering the present study able to present the whole complexity of the phenomenon, we can pretend that there are distinguished several significant macroeconomic aspects of the toxic economy.

Definitions

Toxic products - products not manufactured in the country, for which no customs or excise taxes paid proper or fraudulent border last product category for which were prepared false documents and proceeds from the sale are taken illegally in the country.

Toxic assets - assets of the state, or granted sold at a price undervalued and state money obtained are used to pay state salaries, pensions or benefits.

Toxic money - external support borrowed money without investment destination, which are used by governmental apparatus for payment of wages, pension benefits. These destinations are normally covered by contributions from taxes and fees.

Phases forming the toxic economy

Phase I. The first phase occurs with the creation of toxic products and toxic assets. This phase involves the opening of the domestic market to international markets. Although a customs union involves bringing a progress because access to more diversified range of products at lower prices, but still in a certain context this advantage can become a drawback, which can create structural imbalances. In fact, this study considers this event as a beginning of the imbalance between domestic production, domestic and standard of living of the citizens of that country:

➤It is not clearly defined if the balance lean in favor of this motion, but there are two big disadvantages can be defined;

➤Domestic similar products imported are affected. The cause can arise from different levels of productivity, learning curve, Economies of scale, but also in quality of market entry of smuggled goods un-cleared, or false documents;Creation of toxic assets.

Toxic products create more competition in the market, not in all the cases a fair one. Thus some of domestic products can be eliminated by the market. The domino effect is that some production activities are out of service, jobs disappear which generates toxic effect of lowering the standard of living.

It is to be mentioned that toxic products may affect (not directly) the policy by the impact that such products have on the exchange rate.

It should be underlined however that is contrary to the worldwide trend of the global economy to believe that an economy could exist without affiliation to a customs union, but same time adverse effects must be considered with objectively.

Phase II occurs when toxic products create an unbalance in the market. This is called the unbalanced toxic market. This type of market is the one of predominated by the goods imported from abroad and an important part of them are brought into the market without paying any customs duties.

Smuggled goods sold with false invoices bring great disservice to the state budget that requires a system of control very well developed, associated with a system of tax collection. Imbalances are clearly outlined: small budget collection, danger of insolvency of the country, needs to borrow additional funds to balance the budget deficit.

This is the phase in which corruption is deeply entrenched, personal interests of the ruling party prevail over the national interest. Dissatisfaction is growing among population, due to lowering of the living standards.

Phase III The third stage is the appearances of toxic money. Such money can be created from several sources, and due to several reasons.

The first category is represented by the retail consumer loans for the purchase of various durable goods, or for mortgage backed with immobile or purchased land. These types of loans exist in any economy, but how can such money become toxic?

Thus, where credit is granted in an period with accelerated lending growth, without an adequate risk management, after a period when the customers lose their ability to pay the borrowed money for the bank loan, those money becomes toxic. Both parties are effected banks need to make provisions and customers who reduce their standard of living to support delayed rates and penalties.

The second category represents loans granted to companies without having an initial proper risk management. An example would be the most common loans for real estate projects, not intended for creation of inputs. When the real estate market fell all these funds become unprofitable. In cases of default banks must create provision again, but this time for a very large amount. All such loans create toxic money.

In general terms, banks already should finance projects that target long-term sustainable development and in consequence to pursue two main objectives: projects that do not affect that care for the environment and future generations.

The third category is the loans contracted by the state government both from domestically and externally markets to cover all expenses other than investment that can create added value. This can include loans from the IMF, EBRD, which did not target the production of goods or the investments for infrastructure.

A comprehensive view of the situation related to toxic money is suggestive presented by Charles Gide and Charles Rist in the book "A History of Economic Doctrines from the time of the physiocrats to the present day" Jun 5, 2011:

Moreover billion coins which came from abroad causes in the country which is received, a reverse phenomenon, poverty and depreciation of the currency, curves prices, shrinking exports and incentive for imports "

The fourth category is the proceeds from the privatization of state companies that do not give back a return to real economy and for which the state spent in unproductive purposes or special purpose money which also become is unproductive. Here the most convincing examples come from spending financing election campaign.

For the third and fourth category we can exemplify the money borrowed by the state at a cost which unless are invested in projects that lead to a return above the cost of financing, than such movement will create a burden on future generations and therefore can be considered as money super toxic

The fifth category is the black money resulting from tax evasion or money laundering. Compared to other categories harmful effects of these toxic money is obviously no place to return.

Phase IV is the phase of when using toxic money, toxic products and toxic assets the markets try to reach an apparent point of balance with a constant growth rate of GDP, but where standard of living is the lowest. It is the way it destroys a balanced economy in favor of other developing economies through an immense commercial network by transnational corporations in the country that no longer has any industries and industrial chains due to lack of money. Local banks to finance are not able to save from insolvency themselves and become bankrupt or sold.

Balancing toxic mechanism is the following: State borrow money which are with no certain destination from an international body (IMF, EBRD) and use those money for the payment of pensions, wages, benefits, money unproductive instead of choosing to finance direct investment in national infrastructure that create jobs, and bring tax contributions to state and also create national added value.

The balanced toxic market the export of high-tech production and processing is very low, in turn exported raw or lightly processed at ridiculous prices.

Production of consumer goods production is divided into national, regional production and production worldwide. What distinguishes them from the same product manufactured in three conditions is the level of productivity generates price differentiation. The higher productivity is lower with both costs are higher and lower profit margin, given that the market imposes a price. Ultimately lowest productivity product is removed from the market.

But production of the product is done by the workers in another state, thus earnings are collected by the exporting country where GDP is produced and this increase the standards of living and importing country worker who is forced to work on a salary of power purchase diminished.

Effects

The apparent balance from the fourth phase toxic money – toxic products in fact are creating the impression of an equilibrium but in fact is accelerating the dependence of to import. Those imports cannot be done directly by the locals but by companies specializing in sales with aggressive marketing policies, those benefits from commercial loans almost limitless from Head Offices. The goal is to create market share and eliminate local producers and in this way to secure positions addiction.

The balance toxic money - toxic products lead to chronic unemployment in the labor market and thus to lower living standards. In fact, the state has no budgetary resources is forced to resort to reform the salary reduction or enlargement of taxes and resort to internal or external loans.

Inside a toxic economy two spiral born, one that falls - the standard of living and has lower base and another one that is based on small bottom and large base representing the balancing up of the toxic assets in the market.

In the event that in an industry there is no access to financing, funds for research and there are no market to sell their products internally or externally, then that industry bankruptcy. An industry such as the automotive, support, besides the main factory a series of other satellite factories where involved hundreds perhaps thousands of workers. It is possible that a breakdown of such industries if the unemployed hundreds of highly skilled workers who are forced to leave the country to other economies, or to reconvert themselves

The money from the privatization of various economic activities are not destined to become toxic but after their allocation to destinations unproductive consumption and offers no prospect of return. Only in this moment money becomes toxic. There is another aspect that must be considered which is the lack of control of money destination that could become exotic destinations in the mailbox address.

The magnitude of the toxic effect leads to an irreversible destruction of the economic system that accentuates the falling living standards and with transforming the territory in a market for other countries with high productivity.

Conclusions and recommendations

- Toxic economy is producing those imbalances;
- The transformation of productive assets in toxic money;
- Total lack of specialized control at all levels of the economy;
- Massive migration of specialized workforce in Western countries;
- Lack of perspective in terms of sustainable development;
- Decreased of standard of living.

The analysis starts from the interdependence of political, economic and the society. If the personal interests of politics, which is the power of government decision-making, prevail in the country, is the starting point in the formation of toxic economy. In this type of economy resources are suited to the formation of toxic products, toxic assets and toxic money. There is no focus on sustainable investment and the creation of value added respectively.

How the society reacts?

The society has the right to make change from four to four years, through elections. But the vote is not often an option which is based on doctrine, but rather a vote of denial. In addition there are many techniques for manipulating the population by those which govern and are better organized in the territory. Also another contributor to this situation is the fact that another part of the population opts for absenteeism. Thus, another political regime imposes his personal or group interests beyond national interests and such a regime is rooted corruption at the lower level to higher levels. What is the worst are the prerequisites to develop in society, feeling that can steal without criminally liable.

This interdependence creates a spiral of political interest, policymakers, impact on the economy, population and standard of living.

What to do?

The output of toxic economy spirals cannot do than by removing the causes. The first and most important cause not related to monetary policy or fiscal policy but is the lack of leaders committed to the national interest.

A second major underlying cause is the lack of an independent judiciary to impose impartial in society and among political leaders following approach: you cannot hurt a nation without paying.

For the first problem solution comes primarily from the society that has the maturity, experience and intuition to choose the right leaders.

For the second problem structures must be created using examples adaptable from other more developed countries that do their job. The entire political class in a toxic economy must be cleared. The new governmental regime must impose those structural reforms that induce sustainable development strategies aimed to pursue the following pillars:

- Economic development,
- Environmental,
- Social protection.

Sustainable development invariably brings increased standards of living, environmental protection and also care for future generations. Raising living standards develops a reliable national pride sentiment among the population.

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