ASSUMPTIONS ABOUT THE ROLE OF ECONOMIC GROWTH IN THE DEVELOPMENT OF CONSUMER BEHAVIOR IN ROMANIAN ECONOMY

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Abstract

This paper aims to identify valences of Romanian consumer profiles and the main influencing factors of income, especially income of labor. Also, we try to establish causal links between economic growth, income and investment on the one hand, and consumption support, on the other hand.

Keywords: *consumption, disposable income, economic growth, labor productivity*

Introduction

The increase of the income level depends on the economic growth. This indicator blocks the cumulative manifestation of goods competitiveness on the market, endowment with natural resources, exploration of the productive potential, labour force incentives, the balance degree of import and export, unions' force of negotiation, weight of social policy versus other structural policies, access to the sources of finances already existent on the monetary- financial market, the degree of market liberalization.

The most important aspect of consumer's theory may be linked to the impulses of economic policies sent through the channels of prices and exchange rate because the consumer's motivation and his behaviour changes once with the modification of price behaviour, the consumer being a active player on the market of goods and services. At the same time, the changes in social policies that appeared in time, stress the trend to purchase goods or, on the contrary, the consumer being one of the budgetary transfer beneficiaries which leads to a surplus of monetary mass that covers the demand of economic goods.

Therefore, a desirable consumer is the one with an increasing purchase power in the context of economy competitiveness. The impulses of economic and social policy influence consumer's behaviour to adjust the demand of goods, consumer's psychology and the motivation of his purchase being strongly influenced by the market itself.

The structural change in wholly demand and the decline of the standards of living for most of the Romanian population are problems of great political and social sensitivity Romania's transition to a market economy induced deep and contradictory changes to the standard of living. On the one hand, a diversification of the sources of income took place. In 1990 a law which permits accumulation has been in place, supplementary income has been generated from occasional activities, and substantial opportunities to gain income have arisen from business. On the other, the dramatic fall in production, as well as the rapid changes in income levels, structure and distribution, has led to an explosion of poverty in entire Romania economy.

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The market economy pinpoints the role of consumer as a promoter of goods demand as well as its main outlet. Under these circumstances, it is necessary to have an analysis on the consumer's behaviour in accordance with the conditions of the market mainly adjusted by monetary constraints, and, secondly, by the conditions of absorption, in order to set up a strategy for stimulating consumption considering the acceleration of economy growth meant to supply financially the economy.

Paper content

The consumer's behaviour is tightly connected to the available income on the one hand, and the systemic relation between the needs, the utility of the economic goods, education and, on the other hand, the consumer's psychological profile and the consumption tradition.

The classic analysis would construct the function of demand for a certain good, firstly considering the relation price- quantity. (Gilbert Abraham-Frois, 1992). Keynes suggests, after several hesitations, a certain relation between the global consumption and income; the characteristics of the consumption function and the justification of the hypothesis are formulated as it follows: the fundamental psychological law on which we definitely can count, a priori, due to the knowledge we have about human nature and, at the same time, a posterior, due to the detailed information acquired through experience, is that most of time people tend to increase their level of consumption once with their income, but not proportional with it. (Keynes, 1936).

In a certain economy, decisions for and against consumption are taken by different economic agents who take the decision of investing; even if the agents that save and invest are the same, their reasons are different. Generally, the decision for consumption is correlated subsidiary to the behaviour of budgetary policy: family's temptation to consumption does not depend on the distributed income Y, but on the available income Y_d, which is the income that remains after taxes payment. So, we have[1]:

$$Y_d=Y-T$$

and

$$C=C_0+cY_d=C_0+c(Y-T)$$

$$Y= C_0+c(Y-T)+I_0+G$$

$$Y=\frac{C_0-cT+I_0+G}{1-c}$$

In this case, there are highlighted different types of budgetary policies that public power may promote through budget. Thus, under the conditions of an expansionist budgetary policy, the appetence for consumption may influence the capacity of economy production at the aggregated level. Thus, an increase of the public expenditures determines a more proportional increase of the level of income provided that the extension of the public expenditures should not generate an increase at the fiscal level.

[1] T-the level of taxes and
C_0- autonomous consumption
G- government expenditure
I- the level of investments

$\frac{dY}{dT} = -\frac{c}{1-c} \Rightarrow dY = -\frac{cdT}{1-c}$ where size - $\frac{c}{1-c}$ stands for fiscal multiplication.

The variation of the level of production opposes to the weight level: a state weight increase generates a decrease of income and yield Y.

The allocation of income for consumption varies, as we have showed, depending on the behaviour of fiscal policy, as well as the monetary one. At least for the economies strongly oriented to import, the dynamics of the interest rate influences the decision of consumption, especially the consumption of the future goods: the acquisition of household goods or the consumption by credit card create the consumer's dependency in terms of monetary market. At the same time, the variability of the exchange rate is another pressure on the available income under the conditions in which the domestic production decreases the weight of import goods in the family budgets.

If it is natural to have a interdependent relation between the level of household goods consumption and the interest rate, the great part of the these economic goods being acquired by credit, the consumption of current goods in Romania depends both on the relation potential income- goods demand when using credit as payment tool for current consumption. This fact is not irrational in terms of economy, but in case of an economy with high capacity of production and as a result, of limited added value, produces a confusing effect which implies a stressing dependency on crediting function without a proportional coverage in terms of creative yield of a production meant to allow a real appreciation of income.

Under the normality conditions of economy, the equation production-consumption would generate income meant to assure a certain level of wellness if a significant percentage of production would be domestic which would lead to an increase of the available income of active labour force, on the one hand, and the increase of the employment rate, on the other hand. Under these circumstances, there are premises to increase budgetary incomes that should be oriented to public investments.

The economic motivation of encouraging incomes and their transformation in consumption, respectively the formation and the support of the aggregated demand are of great interest. An economy that is not oriented on economic resources correlated to the labour ones highlighting the act of production, and, in subsidiary to that of consumption, would generate an increase of external demand, with negative repercussions on the debt level , a labour force motivation and capacity of relating production factors to the production act. The problem is not the increase of the external demand, but the incapacity of internal conjectural factors (political, economic and social) to orient economy towards a rational use of production factors and the retain of those categories of economic activities that comply with the requirements of the market and the needs of the solvable consumers both on the domestic and external market.

The function of aggregate expenditure are[2]:

Y=C+I+G+(X-IM)

Analyzing the import content of consumption, enabling the C's and IM's to depend on Y:

Y=cY+I+G+(X-mY)

Then put out the import content of independent expenditures, separating it in each case:

[2] X- the level of exports
IM- the level of imports

$Y=cY+(I-I_m)+(G-G_m)+[(X-X_m)-mY]$

where I_m, G_m şi X_m are imports of investment expenditure, government expenditure and exports.

$Y=cY +I+G+[X-(Z+mY)]$

where Z is an autonomous component imports, $Z=I_m+G_m+X_m$

The income for consumption is generated by the remuneration of the labour production market. The labour force management and its payroll is done considering the function of optimal dimensioning of the market as well as the dynamics of labour productivity. Considering this, the labour force market of Romania is remunerated at a low level than other markets of the E.U.

We think that labour remuneration is fundamentally linked to productivity and efficiency that, in their turn, depend on a series of psycho- social factors, such as education, health, culture, mentality, creativity, attitude towards a certain group, organization, community, society and family.

Romania has recorded the lowest labour income which denotes that labour productivity is very low (as a result of the lack of incentive and the low quality of the technical equipment), and the completion in terms of economic goods is also low. In this case, there are required special measures regarding production yield, increase of economic goods competition, adjusting capital and labour force to produce certain economic goods of higher quality. All these measures require important investment flows and economic resources consumption regulations in order to decrease production costs and adjustment of production to demand.

There is a sort of paradox in this economic strategy: a low labour cost does not generate high incomes as the decrease of the costs is not an effect of the productivity yield, but of the lack of correlation between production and market demands. s

The low cost of labour force stands for an essential element when attracting investments provided that the level of fiscal policy should not minimize investor's profit. In Romania, the advantage of the reduced cost of labour force was not sufficient for investors. The excessive fiscal policy in Romania diminishes the competitive advantage of labour force cost; however, investors classified the labour low as lenient as thanks to the minimum wage may create the possibility of fraud in case of some non- taxable incomes. Thus, the state budget balances between two hypotheses: on the one hand, from the payment of profit income, and, on the other hand, from the encouragement of the underground economy.

The ex-socialist economies have a very low level of income as a result of low production which is due to the inadaptability of the capital to the production structure, especially, to the demands of the market. In this case, the cost of restructure and upgrading technology of enterprise amplify the cost of production for economic goods, which confers a disadvantage of the product comparatively to the price of the best cutting edge product on the market; the demand of consumption in the ex-communist countries is higher- as a result of the interdictions of the communist years which supports import, to the detriment of adjustment of national production to the new conditions of internal demand, without mentioning the external demand; to the differences and deficiencies of the educational system of the urbane and rural environment that encourage low labour incomes.

Low productivity in Romania is an effect of using improperly the capital and the capacities of production, respectively, the irrational use of the production factors, as a result of an insufficient investment flow to the insufficient requirements of growth and development.

In Romania, the lack of correlation between payment and labour productivity stands for an institutional deficiency that affects substantially the degree of society development on long term. There are more factors that generated this economic paradox:

- ✓ Weight of available labour force on jobs as a result of insufficient development of market economy – economy in Romania has not reached that level that allows resources meet the requirements of internal and external market. This fact leads to the impossibility of reaching that level of production that satisfy the requirements of the market on the one hand, and generate incomes that meet these needs, on the other hand.
- ✓ Lack of strategy in allocating public resources- in Romania, the correlation between the economic resources already existent and their possibility of creating financial resources, obviously in relation with other factors of production, such as labour and capital, is ignored. That explains why agriculture, the highly advantaged branch of economy, even the most advantaged one, is not properly valued in order to increase the level of production and to cover as much as possible the demand, due to the lack of an investment strategy, the maintenance of a low degree of development in infrastructure or the indifference towards the labour force training in rural environment. Low interest in exploring the domestic economic potential which is the main cause of low competitiveness in economy, in terms of external market..
- ✓ Weak or insufficient professional training of the labour force in order to decrease the costs of labour as a factor contributing to productivity growth; on the other hand, to increase labour productivity, the degree of labour technology is also taken into consideration.
- ✓ Low domestic products penetration on external markets. The opposite effect of external products on the domestic market deepens the economic deficit. Another effect is the decrease of the selling price for the economic goods, which generates low labour remuneration.

Conclusions

The low labour income cannot support the development of that certain society, the population not having the financial resources necessary for human capital, the main factor of production; the processes of accumulation and preservation of human resources are deficient. And, however, the low costs of the labour force are a competitive economic advantage which attracts foreign investments generating economic growth and development. It seems that the low level of income discourages labour force, respectively contributing to the decrease of productivity, so it affects negatively the economic growth. It is unlikely to progress under the circumstances of a low remuneration that does not cover all the basic needs of the people of our times. Perhaps one of the biggest misconceptions about recent growth in Romanian economy is that consumption and investment was the principal driver behind it. Embodied as the notion of a so-called wealth effect, the misconception is so deeply entrenched that its internal contradictions are overlooked and alternative views are simply ignored. As it is, this misguided thinking is used in diverse settings to (mis)interpret economic conditions. For it is only investments that find their way into productive activities, especially in manufacturing, that can bring sustained boosts to an economy. Consumer spending is not a key indicator, as many have portrayed it. Without an increase in real earnings brought about by rising real income from increased productivity, an economic boom on the back of consumption will be an illusion.

In most instances, consumption is the result rather than the cause of growth. An exception occurs when promiscuous central-bank policy causes excessive expansion of credit. But this can only create an artificial and temporary sense of increased prosperity that eventually is brought to an end either by a bruising round of inflation or an overexpansion that leads to a collapse in profitability.

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