

GDP - AN INDICATOR OF PROSPERITY OR A MISLEADING ONE?

CRIVEANU MARIA MAGDALENA,
PHD STUDENT, UNIVERSITATEA DIN CRAIOVA, ROMANIA
mag_da64@yahoo.com

Abstract

The paper presents a comparative analysis of Romania's GDP and other European countries' GDP, as a response to social media debate on the fact that Romania seems to have the highest economic growth. The purpose of the research is to signal a series of inconsistencies between the GDP indicator and the economic reality of a country. In this sense, we propose an assessment of the level of GDP in Romania and in other countries, as well as the growth rate of GDP. We also want to highlight other representative aspects of a country's assessment such as the debt ratio or the uneven income distribution, which are more representative than the GDP indicator. In this context, we want to emphasize that an isolated analyzer can distort the real image. At the same time, the issue is alarming if we recall some other negative events, such as the 2008-2009 period, when Romanian society, being encouraged by a fictitious explosion of GDP, has developed an unsustainable, debt-based economy.

Key words: growth rate, GDP, debt, inequalities.

INTRODUCTION

In the third quarter of 2015, the National Institute of Statistics announced that Romania had the highest economic growth in Europe compared with the previous quarter (1.4%). The statistics were even more encouraging at the end of the year, if we consider the increase of 3.8% from a year earlier, which ranks Romania the second country in Europe when it comes to economic growth. In this context, the experts rushed to foretold even more optimistic statistics for 2016, so that NIS announces Romania is leader in the European Union, with a gross economic increase of 4.3% in the first quarter of 2016. While economic specialists or political representatives praise Romania's economic momentum, most of the population does not seem to grasp this colossal financial gain.

In this sense, this article aims to examine the notion of gross domestic product and its components, to perform a comparative analysis of Romania's GDP and that of other countries in Europe and to analyze the economic growth in numbers and in percentages for Romania and other important countries in Europe.

GDP INDICATOR AND ITS LIMITATIONS

Before speaking about economic momentum and growth, we should first know the GDP volume of each country in relation to Romania.

More broadly, GDP is the sum of the market value of all goods and services produced during one year within a country.

The following charts show a comparison between Romania and three European regions with the most representative states in order to visually observe the level of GDP for each of them. Romania is included in all 3 charts for a better visualization of the different volumes.

The volume index of GDP per capita in Purchasing Power Standards (PPS) is expressed in relation to the EU-28 average, set to equal 100. Because the figures are expressed in PPS (i.e. they have a common currency), the differences in price levels between countries are eliminated, thus making possible comparisons between different countries. In this context, we see that if the index of a country is higher than 100, this country's level of GDP is above the EU average, while if the index of that country is lower, then that country is below the European average.

Central and Western Europe

Real GDP per capita, growth rate and totals
 Percentage change on previous year, EUR per inhabitant
 Chain linked volumes (2010), euro per capita

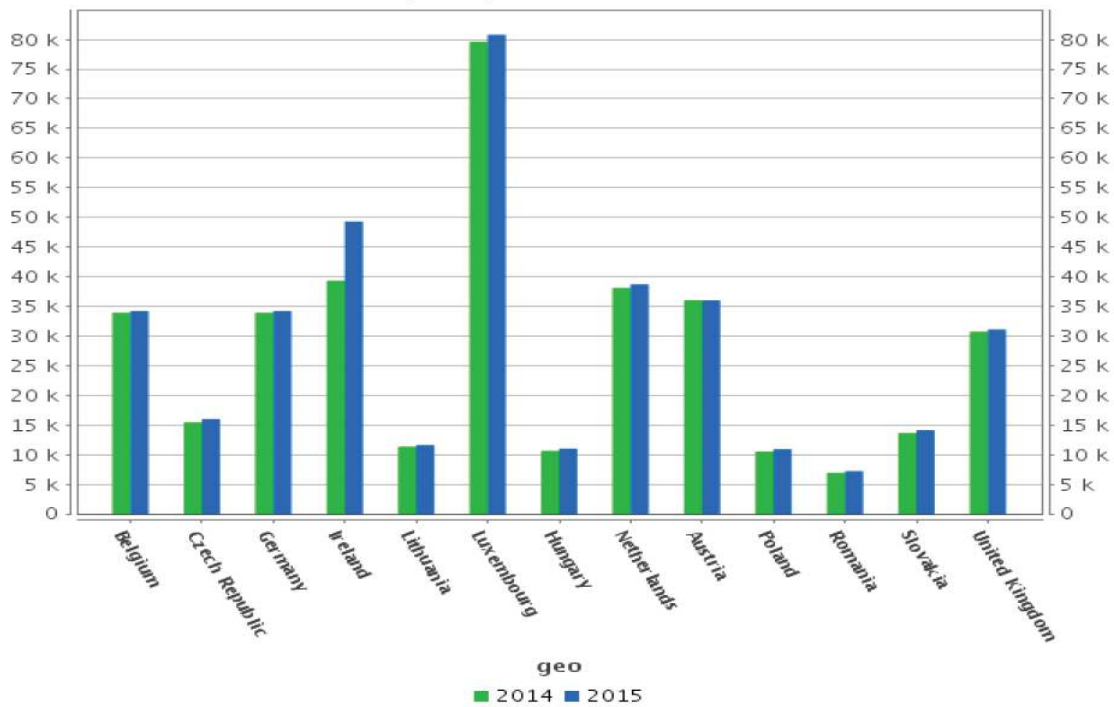


Fig NO. 1. Central and Western Europe GDP/capita
 Source: EUROSTAT

In the Central and Western region, which is the most developed in the European Union, there are a few countries worth mentioning, namely Netherlands with 38,700 E / capita, Austria with 36,000 E / capita, Germany with 34,200 E / capita.

Southern Europe

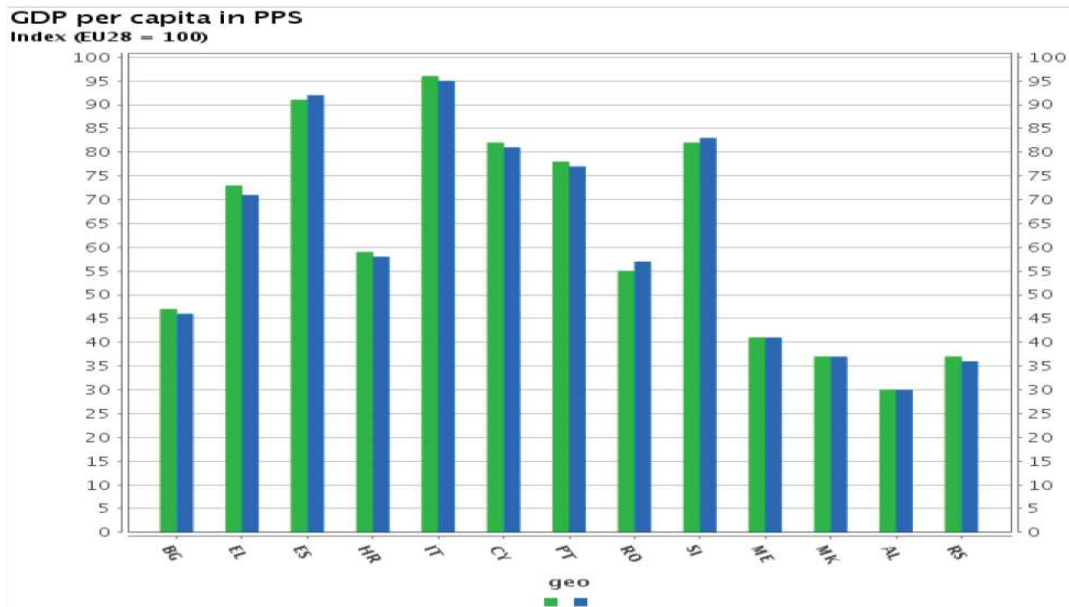


Fig. NO. 2 GDP/capita in Southern Europe
 Source: EUROSTAT

In Southern Europe we have Belgium with 34,100 E / capita, Italy with 25,500 E / capita and Portugal with 16,600 E / capita.

Northern Europe

Worth mentioning in the Northern region are Norway with the huge GDP of 67,800 E / capita (although it is not part of the EU) and Denmark with 43,800 E / capita.

Also compared with the European average, with the EU-28 value set to equal 100, Romania is well below average (26,300 E / capita), recording the volume index of GDP of 57 in 2015.

By analyzing the 3 charts, we can conclude that Romania occupies an average position regardless of the region we refer to; only in the Southern region Romania managed to lie ahead of countries like Bulgaria (5700 E / capita).

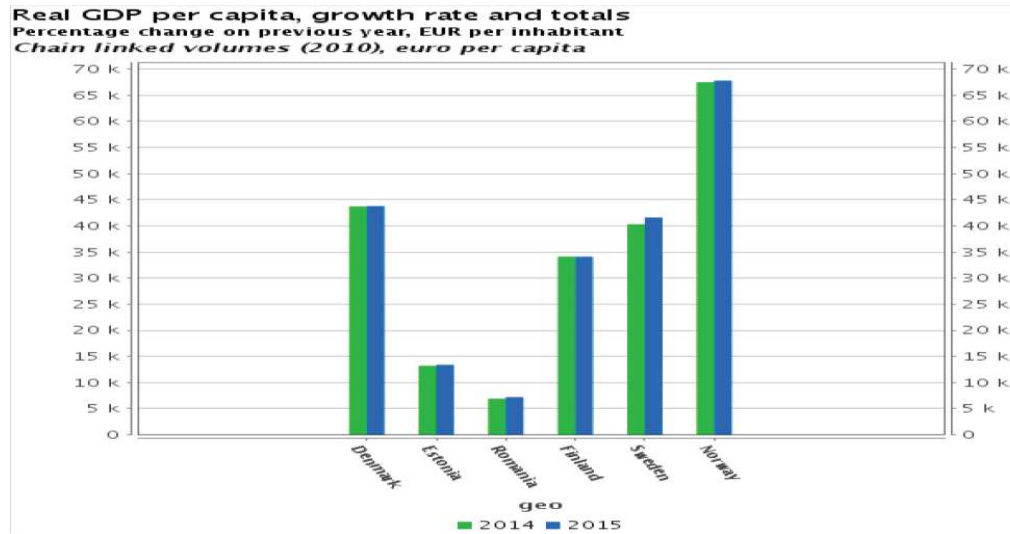


Fig. NO. 3 GDP/capita in Northern Europe
Source: EUROSTAT

2014 – 2015 GDP growth

The following chart presents a comparative situation in the economic growth between 2015 and 2014 for each country. It shows an increasing trend for Europe and for Romania as well. The overall picture shows the obvious inconsistencies between Romania and other states; only Bulgaria's GDP index is lower than our country's.

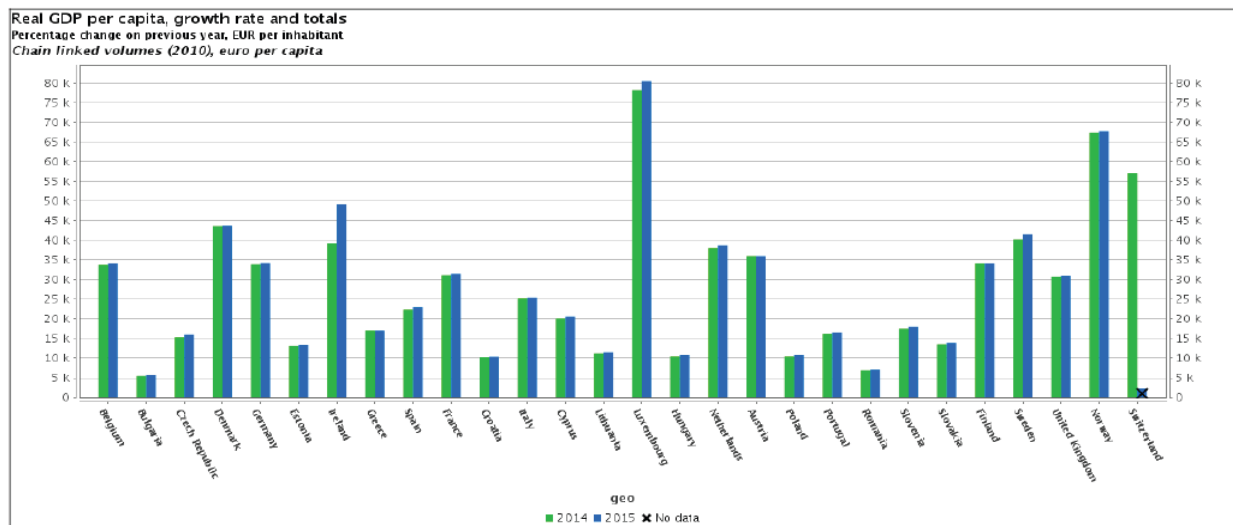


Fig. NO. 4. Growth rate in Europe 2014-2015
Source: EUROSTAT

If we look carefully at the chart number 4, we find a decrease in GDP growth per capita in some developed countries of the EU in 2015 compared to 2014 and increased as unexpected GDP per capita in among the countries from the former communist bloc. One possible explanation may be decreasing exports of developed countries to the countries still in transition to market economies functional due to the changed concept of consumers after the recession or diminishing real wages in the former communist countries due to higher prices of consumer goods in spirit upgrade to average European prices. Also, in Romania's case, it is interesting to check if this growth is not based somehow changes to the structure of production and exports in terms of production of goods with low added.

GDP growth rate

If we analyze the charts, we see that Romania’s leadership position in the EU is only a generic one, or if we analyze the increase over the previous year from the percentage point of view and not as exact amount recorded from year to year per capita. At a closer look at the figures, we notice that Romania does not go out of the trend established at the EU level, and also does not record the highest increase (following the Czech Republic). With an increase rate of 3.8%, which is nearly the highest in the EU, the real difference between 2015 and 2014 is of 300 E / capita, far lower than Spain for example, which records a difference of 700 E / capita (from 22,400 in 2014 to 23,100 in 2015). Although in digits the increase is more than double from that of Romania, the percentage increase is of 3.2%, with 0.6% lower than Romania’s. Another example would be that of Great Britain, with a difference of 400 euros between 2014 and 2015 (30,700 E / capita in 2014, respectively 31,100 E / capita in 2015). However, the economic growth is only of 2.2%. Even when analyzing the situation of Hungary, we see that it may be somewhat better than in Romania. With an increase of 400 E / capita (10,500 E / capita in 2014 and 10,900 E / capita in 2015), Hungary has an economic growth of 100 E / capita compared to Romania, but a lower economic growth than Romania when it comes to percentage.

Countries like Germany (33,900 E / capita in 2014 and 34,200 E / capita in 2015), France (31,200 E / capita in 2014 compared to 31,500 E / capita in 2015) and Portugal (16,300 E / capita in 2014 compared to 16,600 E / capita in 2015) are on the same level as Romania, i.e. they register an increase of 300 E / capita compared to the previous year. Although the values are equal, the percentual economic growth differs: 1.7% for Germany, 1.3 % for France and 1.5 % for Portugal.

Real GDP growth rate - volume
Percentage change on previous year

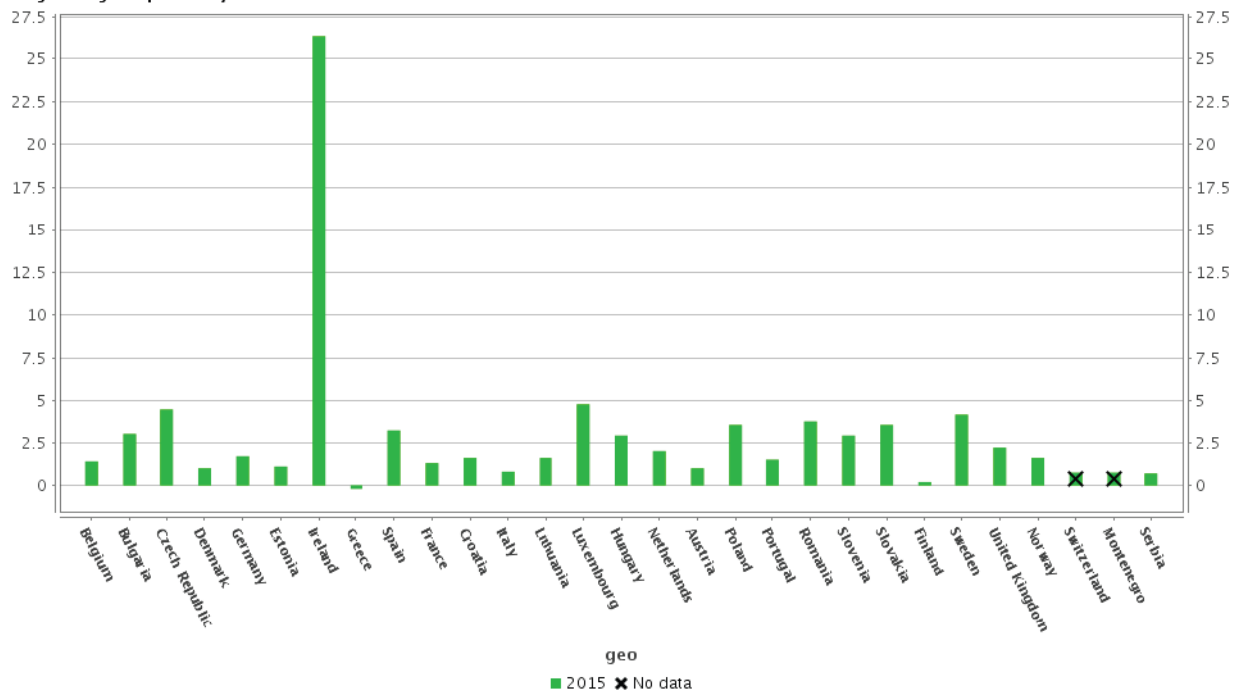


Fig. NO. 5 GDP Growth Rate in Europe – Volume

Source: EUROSTAT

For this reason we can say that the percentual form of the GDP growth does not reflect the economic reality from that country. Obviously, if the GDP is rather small, such as in the case of Romania (6,900 E / capita), an increase of 300 E

/ capita can be significant as a percentage, while an increase of 400 E / capita as in the case of Britain is not significant if we relate it to such a huge GDP as 30,700 E / capita.

Thus we can state that the Romanian people would have to wait 90 years for their country to reach the level of Germany for example, which has a steady economic growth of 300 E / capita / year, and this only if the German economy would stagnate and would remain at the same level during these 90 years.

Romania would also require about 31 years to catch up with Portugal, whose economy is not as strong as that of Germany and who faced big problems because of unemployment and economic crisis.

At the same time, we must take into account that Romania is an emerging country, where the investments in infrastructure represent a priority in the case of developing countries. Naturally, a Western European country will not invest to the same extent in infrastructure, its GDP being mainly represented by consumption. In this sense, we can analyze the example of former Yugoslav countries during the post-war period. As highlighted in the charts below, these countries experienced a fabulous economic growth right after the period of conflict, mainly starting from the year 1999. This increase should not be interpreted as an indicator of wealth and prosperity, because this economic growth came mainly from the investments in reconstructing the countries destroyed by war or economic and political conflicts.

Real GDP per capita, growth rate and totals

Percentage change on previous year, EUR per inhabitant

Chain linked volumes, percentage change over previous period, per capita

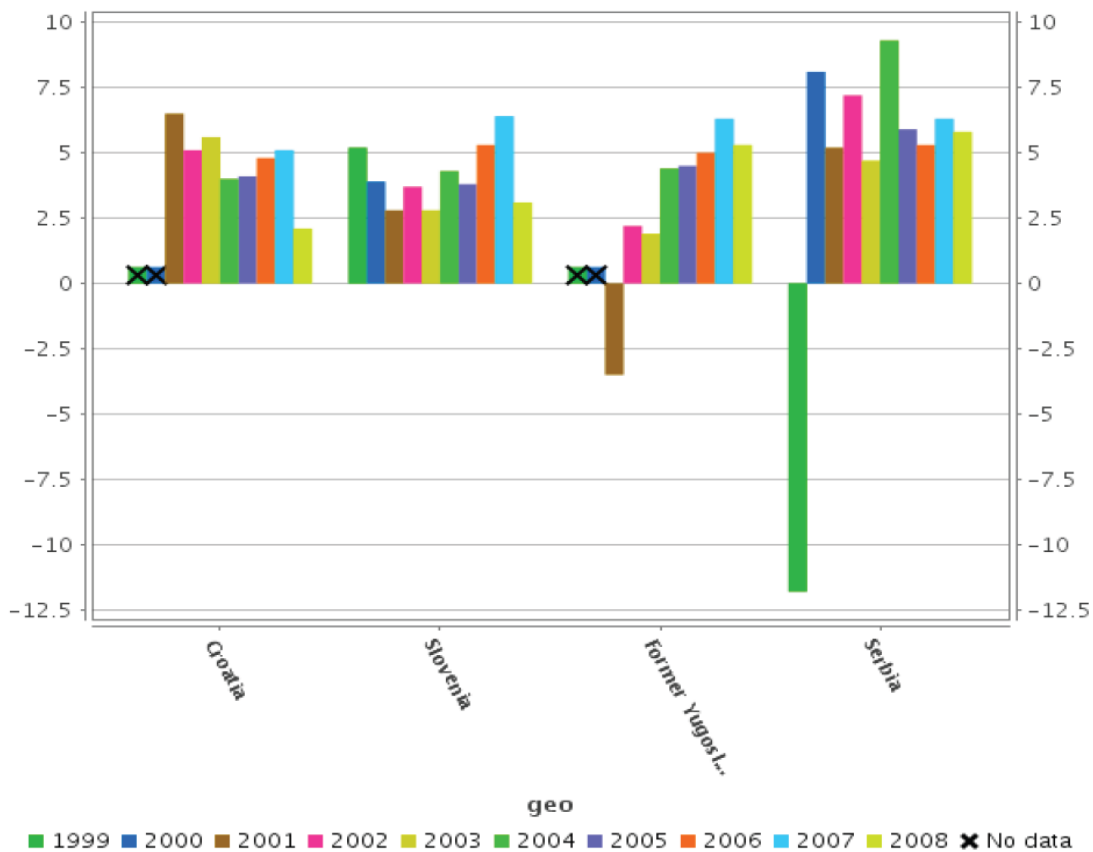


Fig. NO. 6. GDP/capita of Former Yugoslav Countries

Source: EUROSTAT

Thus, in 2001, Croatia recorded an increase of 6.5, Slovenia of 5.2 (their economic growth started in 1995, after having proclaimed their independence in 1991) and Serbia of 8.1 in 2000. The countries of former Yugoslavia recorded in 2002 an increase of less than 2.2, but it is worth mentioning that here the conflicts have ended a while later; however, in 2004 they recorded an increase of 4.4.

By comparison, we can observe the evolution of some developed countries in Western Europe during the same period, but which seem to fail at having the same performance of less developed countries.

Real GDP per capita, growth rate and totals

Percentage change on previous year, EUR per inhabitant

Chain linked volumes, percentage change over previous period, per capita

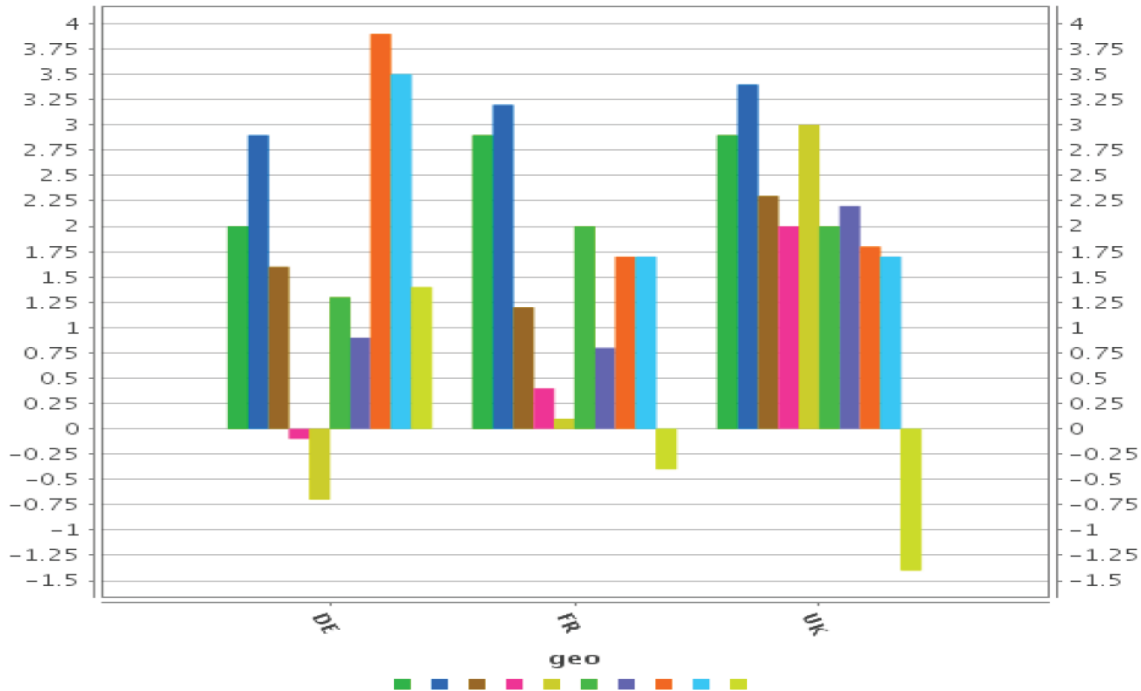


Fig. NO. 7. GDP/capita Western Europe

Source: EUROSTAT

For example, Germany had increased by only 2.2 in 1999 and had even negative results in 2002 and 2003; France had a 2.9 increase in the same year, being visibly affected by the 2008 crisis, and the UK also had positive results at the beginning of its reference period (2.9) and even negative results at the beginning of the crisis in 2008 (-1.4).

We can therefore conclude that a developing country will always experience a faster growth rate than an already developed country, whose main goal is to maintain its stability. Even if Europe and the European Union present a growing tendency, the increase rate is becoming smaller, as the countries fail at registering the same economic growth from the '80s.

Another aspect that must be taken into consideration when referring to the GDP index is the unequal distribution of income in a country and in this respect Romania is leader in the European Union with an index of 8.3. The data is presented in the form of a ratio of revenues collected by 20% of the population with the highest income (highest quintile) and 20% of the population with the lowest income (lowest quintile).

Thus, it can be concluded that the equal distribution of GDP per capita in Romania is incorrect, because Romania is rather a country of discrepancies and inequalities; the middle class, which is usually considered to be the economic engine of a country, is almost nonexistent, the population being divided between those with very high incomes and those who are struggling to survive.

Inequality of income distribution
Income quintile share ratio

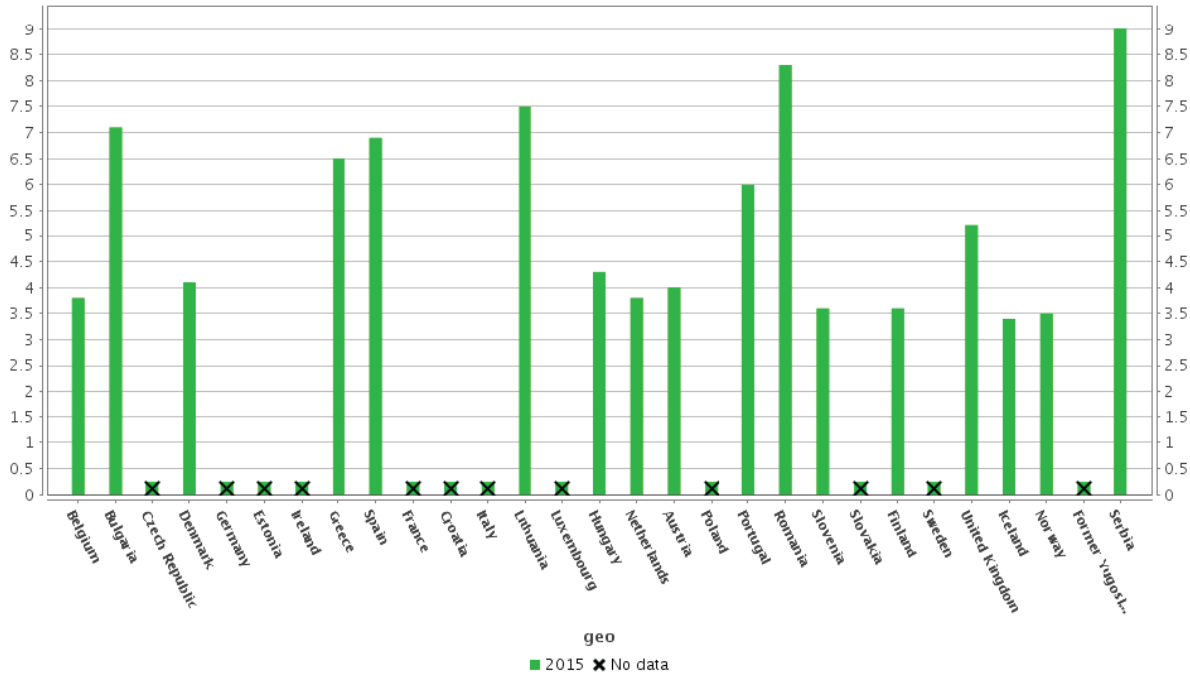


Fig. NO 8. Inequality of Income Distribution
Source: EUROSTAT

Also, what I consider to be a really important component of GDP refers to the employee compensation, i.e. the remuneration of employees in cash or in kind, including special contributions paid by the employer. Also in this respect Romania occupies the last position in the European Union, after Greece, with a total compensation for employees of only 32.3% of GDP, compared to 32.5 % in 2014.

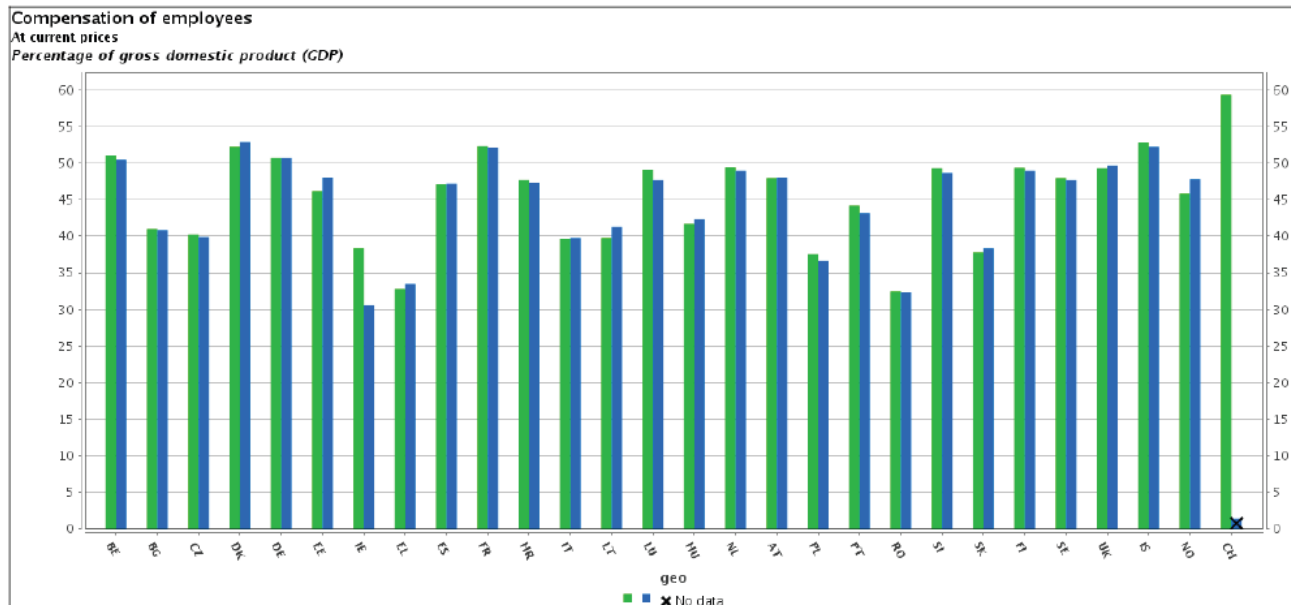


Fig. NO 9. Compensation of Employees
Source: EUROSTAT

CONCLUSIONS

To conclude, we can say that, as a macroeconomic indicator, the GDP can be deceiving because it does not capture the overall condition of a society. Aside the fact that it does not take into account a number of elements related to a

country's economic course, it can even conceal a number of anomalies like, for example, the inequalities in the income distribution that can lead to events such as Brexit in the UK.

At the same time, how can we talk about economic growth in an era governed by foreign debts that become even bigger each year? Concurrently, economic growth is considered to be the enemy of a sustainable development, as production relies mostly on the exploitation of limited resources. As the production of goods will increase, these resources will diminish, forcing the future generations to bear the burden of the present societies' indiscriminate regarding the distribution and exploitation of resources.

Another negative aspect refers to investors that are attracted by these figures, having the tendency to invest in areas that are apparently developed, even if this economic growth is often not sustainable. In this sense one can analyze Romania's situation during the years 2008 – 2009, when the growth rate reached 8.1, while the next period was characterized by a substantial decrease of incomes, negative economic growth and explosion of foreign debt.

6. REFERENCES:

- [1] Statistical Office of the European Communities <<http://ec.europa.eu/eurostat>>
- [2] National Institute of Statistics <<http://www.insse.ro/cms/>>