

The Home Market Effect in Agriculture

Marina Luminita Sarbovan

Tibiscus University of Timisoara, 300558, Daliei str. 1A, Timisoara, Romania

Abstract

The most debated economic paradox refers to the positive and negative effects of most of the economic activities; these antagonist sides become in business production factors because they are holding costs. The aggregated effects of human activity surpass the firm or corporate borders, becoming prices paid by consumers, or in the situation of larger social costs, burdens for the tax payers. Some polluting effects of production, consumption and services, such as global heating, the carbon-dioxide emissions, wars, epidemics, malnutrition, obesity, became lately global critical problems for all nations and international organisms. The question remains whether governors will better administrate current crisis focusing on domestic, continental or global markets mechanisms, taking in consideration their particularities.

Keywords: better administration, costs, positive and negative effects.

1. Introduction

Last year, 2010, was in our country a year of continuing economic slowing down, marked by an unexpected increased inflation, which had entailed a series of negative effects in all branches of activity. From the 7.9% of inflation, about a half was due to the external oil price shock, combined with the most unpopular fiscal policy of increasing VAT and excise.

Due to this alarming inflation, which became much higher than the 3.5% targeted estimation for this macroeconomic phenomenon, the businessmen were skeptical, domestic and foreign investments decreased, and the authorities' efforts to manage the overall decline was and remained a cruel challenge.

Nevertheless, there are ways of recovery, and authorities are expected to help the economic enliven.

2. Materials and methods

The scientists proceed to experiments for better understanding the nature, in order to recognize the significance of happenings, to discover new things, to formulate theories or innovate.

Because the complex interrelations among ideas and facts, the classic current of thinkers in economics and science philosophy, like the inductivity adepts, believe that the objective repeatability of things and theories spring from the results of the experiments, and at its turn, the observations will be validated by future events.

The precise true about how to implement the welfare society up to the ultimate cell of its structures, was not found.

That moment will never come, because economy, in all its branches, incumbents hidden processes, generating observable effects; consequently, in economic action, instruments mostly focus the effects, or a succession of effects, and do not change the fundamentals of the characteristic motions.

The scientific method, as a disciplined and rigorous way of finding answers to the more prosperous survival ideal, is sincerely worked, but isolated, because it contains an abstract view upon the hidden and unseen causes, upon the presumed shapes of the sources we want to pacify.

* Marina Luminita Sarbovan, Tel: +40256499962, Fax: +40256202930, Email: marinalumi@hotmail.com

Grounded on statistical data, on observation, analysis and abstracting, the economist' conclusion goes creative, to open a way to a better existence.

3. Results and discussion

The economic evolution of the last years reveals a multiplication of paradoxical events and trends: on one hand, each government represents its' standing economy, serving it more or less, but on the other hand, each government permanently makes arrangements and proceeds to activities which most probably will end by the fusion of the economies, in a large European economy, first, and a global economy at last.

At least per sectors of activity, in Europe we notice a special attention to agricultural and rural efforts, supported by subsidies which were more than a half of the European budget ever since UE foundation.

If we objective take a look at the agricultural policy of UE, of creating the unique market for agricultural and food products, what we see is a success, in the sense that indeed, Europe owes now a unique market guided by the walrasian [1] competition equilibrium concept.

This is why we believe that the principle of "the home market effect" is applicable in agriculture, for even if each UE nation owes a more or less developed agriculture, the reality shows a single target, one plan, and a unique market mechanism on agricultural and food sector.

The principle of the home market was detailed by Paul Krugman, 1988, [2] in connection with his "New Trade Theory"; it mainly refers to large scale "economic territories", advancing the assertion that a large territory (country), owes a larger demand for a good, in our case a food product, and it shall produce a more proportionate share of that good, when the market is in equilibrium, becoming a net exporter of it.

Not only Romania, but most of the European countries at this moment are exporters of food products, or of agricultural and rural raw materials for food processing (from 33.7 billion Euro in 2009, Romanian exports raise to 42.36 billion Euro in 2010).

Also, for our country, considering the increasing subvention for ecological production in agriculture, we estimate a remarkable raising production and exports of bio products: if in 2009

eco-agriculture owed 2% of the 9 million total areas cultivated, the estimation is it will rise to 20% by 2015.

There is a specific element for the mechanism of the home market here, and it is in favor of a small country like Romania: the abundant demand reaction of the market is dominated by the European demand, able to absorb the offer, in spite of insignificant price variations from one sale-point to another.

Thus, the general equilibrium principle, demonstrated by the neo-classics, is generating profit. In other words, the market principle, of getting monetary benefits, is functioning in its ideal model under the stability parameters.

We underline this remark, for those skeptical who imagine equilibrium to be non satisfactory for business: on the contrary, a balanced state is able to create surplus, exports and profits, to better fulfill human needs in all aspects.

Why this foreign trade is not only an export demand, but a home market effect, in the European market sense?

One answer is because most of the exports were done by multinational corporations, which act under the impact of global and continental forces.

Another answer originates in the observation that there are endowed regions with most production, because they are more profitable and moreover, in future, business will find supplementary economic efficiency by crowding in the same regions; European managers designed the distribution of each economic chapter in the same way, starting from the local potential, and orientating the regions towards what they could produce most profitable.

Such a case is the Romanian potential for bio production, in vegetable and consequently in animal food production: the bio products could be realized because most of the farmers are too poor to invest more in chemical and synthetic stimulus for expanding production, and prices became higher for organic offer; so, a great deal of bio products goes to export (more than 90% of Romanian offer, [3]).

Moreover, this type of sustainable effort, contributes to the stability issue, balancing the foreign trade, the national budget, and improving the financial flows, for the firms and belonging structures [4].

We see a domestic market approach, with the European mentioned particularities, for the

Romanian agriculture, also because the exports did not target only one area of continental market, but all the solvable demanders, on other continents too.

For our country, measures should be stressed, in the direction of supplementary financing, in order to increase the animal bio products, and raw materials of animal origin: at this chapter there is plenty to fulfill, considering that for the time being, the local offer, including more than 1800 traditional attested products, are mainly vegetal, like grains of wheat, oat, soy bean, barley, pea, mushrooms, forest fruits, honey, sun-flower oil.

Observing in the structure of the sold out products, most of them are of vegetal, the estimated trend for the future should display an increase of the animal origin offer.

Although the certification is very strict and made by authorized institutions, thousands of firms activating in bio-business and ecological production are attested, so that another tendency is in all Europe, the alignment of business and farms to the exigencies of the sustainable, long lasting economy.

We find important to link this foreign trade balancing approach to the social issues of the green economy we hope at.

European Union takes actions in order to solve social problems in a long term plan of sustainable development, as a consequence of its renewed commitment, Lisbon projects (2007), updated.

A crucial decision concerns the toxic emissions reduction, fact entailing direct favorable effects upon the climate and life quality, and with long term benefic effects in economy and society [5].

In order to eliminate the pollution factors from the final products, our country delivers bio-fuels, such as bio-ethanol, produced from field-cereals; this bio-component is included in the conventional fuel, to reduce the carbon-dioxide emissions.

The European issue of 20% emissions reduction until 2020 lately became 25% emissions reduction until 2020, and this decision makes the national bio-fuel production even more important, for the targeted EU ecological equilibrium.

This global issue, of emission reduction should have on long term a positive consequence on cost control of the fuels, compared with the oil raising price evolution.

Under these circumstances, we find another particularity of The New Trade Theory, the

domestic market effect promoter, in connection with the transportation costs.

Thus, indeed, if transportation costs are high, theoretically, firms, farms and even corporations should tend to cluster, to agglomerate where their demand is high, and in order to share the highest efficiency from this position.

But now, they could agglomerate to share the advantages of a fuel steady price, or why not, of a lower fuel price, because the new clustering can be cheaper done where transportation is cheaper.

The impact of lowering the transportation costs are enormous, especially if this cheapening is ecological. For agricultural and rural sector, the transport cost issue is crucial to get profits. In this context, the attractiveness of our country goes up, especially when it comes to macroeconomic management of the oil supply shocks.

Another feature of the economic flows regards the human capital flow.

For our country, the integration and the globalization acted indeed as an accelerator for the competition among the national social systems, and this fact generated the movement the human capital from one place to another.

The economic theory and practice teaches us that not only the employed go after the highest salary, but the human capital migration entails social costs, which European Union must be prepared to take.

Funding policies go not only in the direction of economic subventions for farming in agriculture, small and medium enterprises, and environmental protection, but the locations where the human capital works absorb social-costs, preparing a higher quality for that social environment.

From this point of view, our country lost employees recording a dropping, from 9 million employed in 1990, to less than 4.7 million now.

The unemployed migrated, being recruited abroad, but the temporary reduction of the unemployment, poverty and social problems have now negative effects, especially in rural zones.

Of course, there is always an alternative to the labor deficit: an investment in more efficient machinery, or hiring from abroad, but both take time and involves more indirect, collateral expanses, which are unlikely to be done under the present crisis conjuncture.

What we want to show is that the domestic market phenomenon, in the sense of its particularities for

EU, does not occur strictly for material flows, but also for human resources, as value owners.

Unfortunately, for our country this feature is not encouraging, because the national labor market is unbalanced there in a burdening raising unemployment, simultaneously with a demand excess in various branches of activity [6].

If the trend of unemployment will not change course, this resources lack will affect in long run the macroeconomic equilibrium, will amplify the crisis and delay the general recovery.

A very good initiative of the Romanian governors was in this direction, of preventing migration, the national program "First Home" which should be continued and supplemented for rural areas, being in line with the objective of Romania's medium and long term durable development.

4. Conclusions

In Europe and our country, the domestic market effect, linked to the New Trade Theory, owes some particularities, but it is worth looking into them, because they originate in the general principles of economics.

Our country did not recover yet from the crisis, and more solutions and recommendation are needed to rebalance and speed up the economic environment.

Romania has to do more about its offer diversification and processing, delivering less raw materials and more and more final products: the added value surplus is mandatory for the raising efficiency of the exports.

Here we point out the necessity of the continuous industrialization of the agricultural sector, from the mechanical endowment to the information technology widely usage, by investment instruments.

We also refer to the positive consequences of innovation in agriculture and rural sector, in the sense of raising benefits by the monetary cost control tools, not only at microeconomic level, but at macroeconomic one: the interest rates lowered, in Europe and our country too, the currency flows inside narrow limits, the credits for farmers are surveyed by the national authorities (APIA).

One example for animal sector could be the subvention for the genetic material used, which could be more performing due to a research procedure.

If the material flows show a promising future for our country, the human ones do not.

A special attention should be focused on preventing migration abroad, and to attract back the already gone employees.

This issue starts with competitive working conditions, entailing higher salaries and social benefits.

Even if this enterprise seems to be expansive, it will stimulate in the long run the pension and the health care systems, and brings certain benefits.

From the perspective of the market size and the raising exports, our conclusion is optimistic, with a special emphasis on the reality of a normal functioning of the unique European market.

This standard challenges for the highest quality, for sustainability, for a flourishing business environment.

References

1. Walras, L., (en), Elements of Pure Economics or the Theory of Social Wealth, 1956, <http://www.archive.org/stream/Imentsdconomiep00walrgoog#page/n16/mode/1up>
2. Krugman, P.R., Obstfeld, M., International Economics: Theory and Policy, 1988.
3. <http://www.bio-romania.org/cat> Statistics.
4. The 7th European Regional Meeting – Balancing Social and Economic Development www.ilo.org/public/english/fairglobalization : International Labor Organization (ILO), 2005.
5. Global Biodiversity Outlook, The Third Edition (GBO3) containing the Convention on General Measures for Conservation and Sustainable Use of the environment, 2010. <http://gbo3.cbd.int/global>
6. Sarbovan, M., Macroeconomics, Solness Printing House, Timisoara, 2010.