

SUBVENTIONS WITHIN THE MINING SECTOR AND REGIONAL ECONOMIC DEVELOPMENT

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Abstract: *Romania's pre-accessing condition to the European Union which referred to eliminating all coal mine subventions by 2010, and for all the other mines by 2007, represents a major challenge for the authorities.*

Analyzing the forms of subventions (operational or investments, explicit or hidden/implicit) and their dimension at the Romanian mining sector level, we are trying to outline as genuinely as possible the part played by subventions in carrying out mining activities, as well as to anticipate the general context of economic development in mono-industrial regions, where mining represent the dominant economic activity.

Keywords: *losses, subventions, state budget, economic development, mining industry*

Any person that declares himself advocate of the market economy, automatically agrees that private property is the most efficient form of property on condition that the manager (the only person entitled to the profit), by carrying out an economic activity, aims at maximizing profit. The profit criterion triggers the interest in getting an adequate ration between the productivity of a worker (the efficiency of labour) and the hiring costs (the salary). The great motivational mechanism oriented towards increasing efficiency, which functions within private companies, results in the conclusion that the great number of such companies represents an advantage for the development of the economy.

In case of public companies, the state, as owner, is entitled to the entire profit; however, the state's desire to get profit is weaker than in the case of private companies because its orientation towards profit is undermined by other criteria, such as: maintaining hidden unemployment, controlling jobs, setting up factories in places that offer political advantages, not necessarily economic advantages, etc.

Although the agreement is concluded based on the superiority of the private property compared to the public one, there are some arguments regarding the weight of private property within the market economy, that is to say the activity fields/sectors where the existence of public property is indispensable and goes from a predominant weight to exclusiveness – the so-called natural monopoly. By this we refer to "strategic sectors" (the energetic industry, the extractive industry, weapon production, transport networks, telecommunications – the infrastructure in general) which are under the property and administration of the state and the privatization of which is unlikely to happen, as forecasted by many economists.

Here are some of the arguments for keeping the companies which operate within these sectors, under the property of the state and what is more important, for the continuous "cash flow" from the state budget in order to cover losses in some insignificant cases:

- they are vitally important for the development of national economy;
- they require substantial investments which exceed the private companies' investing capacities;
- in most of the cases, they register losses, therefore they do not draw the attention of private investors; even though there are cases when incomes outbalance production costs, the profit rate is still low, thus private capitals follow more attractive destinations.

Without discussing the arguments regarding the importance of keeping strategic sectors under the property of state, we shall try to express out points of view concerning the subventions, and the part played by them within the economy (are they a necessity or an obstacle in the economic development?).

Intervening in economy due to a diversity a means, the state gives a substantial assistance to certain companies, sometimes limiting their decisional liberty. Owing to these subsidies, some fields succed only to survive from the financial point of view and obtain systematically weak or null results. Thus, subventions set a series of problems, both regarding their foundation and the criteria of selection of companies and regarding the determined effects. The subvention implies the idea of support, of financial assistance granted by one side, with no counterpart, which is, quite often, conditioned and charged with a certain use. It implies the existence of a financial need and of a support application, on the one side, and the existence of a financial capacity and of the will to grant support, on the other side.

We can state that subventions represents a form a subversive activity carried on by the public authorities in the sense of breaking the classical frontiers. Granted to a company, the subvention confirms the relativity of the distinction between the public and the private fields, between the public and the private interest. Moreover, subventions disturb even the distinction between incomes and expenses. Although, at the beginning, they are public expenses, they are studied as resources of public communities, and fiscal law considers them as those incomes of the companies to which a specific regime should be applied in order to determine taxable benefit or the basis of determining the added value tax.

Subventions can be found in several economic fields, among which we are going to analyze the ones that concern the mines.

Since there is a great demand of raw material and primary energy carriers, the Romanian mining industry has developed rapidly during the period of centralized economy and a series of poor deposits with a complicated geology have been put into operation; for their exploitation they used inefficient technologies which prevailed in isolated areas and which were influenced by the mono-industrial characteristic; important labour forces were drawn into these areas. Thus, in 1989, when the mining sector reached its maximum development level, there were 278 active mines and quarries, 350.000 workers were directly employed and other 700.000 workers were indirectly employed in mines; more than 10% of the country's population made a living out of mining, while over 17.500 acres of land were taken out of service because of mining activities.

Even after 1989, when the Romanian economy had started to go through a period of complex structural changes, the mining industry continued to be stable. The activity of companies within the mining field was favored by subventions from the state budget or from local budgets in order to cover potential financial deficits and by the guarantee of the state in obtaining internal or external credits meant to compensate for the losses generated by the reduction in the demand of mineral ad energetic resources; thus the consequences resulted from the transition to market economy were easier to handle.

The two forms of subventions, for investments and for exploitation, represent an irredeemable financial support which is offered either with the purpose to finance some long term activities or other investment costs, or to cover the losses and price differences. Granting part of the investment or part of the production activity, the government actually pays for a part of the company's costs – of the mines, in this case – which make investment and benefit by these subventions.

Table no.1
Supporting the mining sector between 1997 – 2005

- USD -

Type of expenses	1997-2000	2001-2005
Exploitation subventions	724.300.000	295.600.000
Capital allowances	335.700.000	162.500.000
Social transfers	356.600.000	67.800.000
Covered exploitation losses	467.900.000	328.000.000

Source: Mining Industry Strategy for the period between 2006 – 2020

Losses multiplied every year because of an insignificant dynamic of the average number of employees and to great pressure coming from unions with the purpose to get salary raise. The researches that were carried out reveal the fact that most of the autonomous regions registered losses or low profitability (beside brown-coal mines – due to The National Brown Coal Company Oltenia Tg. Jiu – and salt mines – due to the National Salt Society SALROM Bucuresti), while the exploitation of other ores required subventions for production, investments and social transfers from the state. In order to cover the differences between exploitation costs and delivery prices, subventions had to be “defalcated”, and mostly by not paying taxes to the state budget, social insurances, the local budget or suppliers and by not having their own investment sources with a favorable influence upon the volume and structure of debts and upon the financial blocking within the entire economy.

The severe the consequences generated by allocating budgetary funds to supporting unproductive activities each year, seen from the perspective of the results obtained, the more often central authorities bring up the need establish a reorganization strategy at the level of the Romanian mining industry which should be in accordance with the requirements of the reform regarding the national economy as a whole; its objective would be to gradually reduce subventions until they are completely eliminated.

Our country’s desire to become a full-fledged European Union member calls forth some obligations during the long period of blending Romanian legislation with the European one. As far as the mining sector is concerned, the accession criterion referred to the fact that in the case of coal mines subventions had to be completely eliminated by 2010, while in the case of other mines they had to be blocked by 2007. In order to meet such a challenge, the government had to define the main objectives regarding the reorganization of the mining sector and to create the proper environment for the development of the private sector within this field, as well as for the development of other activities within mining regions. Beside the objectives, the politics, the instruments, the institutional environment and the necessary resources took the form of mining strategies which were associated with different periods of time 2004-2010 or 2006-2020.

The need to reduce and eliminate subventions is proven by the fact that they can be found as part of budgetary expenditures and they are covered by taxes and dues paid by each contributor, by each profitable company. Depriving individuals or legal entities of their income by applying various taxes (e.g. salary tax, retirement tax, inheritance tax, consumption tax, sales tax, etc) is due, especially in this case, to the need for subvention money. By reducing the net income of individuals or legal entities, their consumption, saving and investing capacity also decreases; this means that the entrepreneur has limited capacity for future development and it also represents an obstacle for the country’s economic growth. Government subventions usually mean applying taxes on private profitable businesses in order to support unprofitable ones. Thus, there is an income transfer towards the grant-aided sector.

Since the states financial resources are unlimited, the allocation of some funds from the budget as subventions towards certain economic sectors implies the reduction of budget funds that were meant for other fields of activity. Thus, unprofitable but “important” activities are being supported to the detriment of other profitable activities, which use this money to develop. These activities will obviously lose what grant-aided sectors gain. Capital and labour force are redirected from sectors that could have used them more efficiently towards sectors in which they are inefficiently employed. Slowing down the development of these sectors brings about fewer investments, smaller profits, and fewer jobs. Thus, this implies less wealth and the living standard is inferior to the targeted/desired standard.

This simple and common sense argument reveals the role played by subventions as an obstacle in the way of economic development and the improvement of living standards.

Unfortunately, things are not at all as simple as they seem, therefore we must mention as an example the case of the Jiu Valley, where the process of mine reorganization which took into consideration the reduction of subventions, mainly aimed at reducing labour costs by dismissing 27.309 workers between 1997 and 2007.

Table no.2
The evolution of personnel dismissals between 1997 and 2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
No. of workers dismissed	18.185	2.623	501	0	0	300	600	1.700	1.600	800	1.000
Dismissals (%)	38	11	3	-	-	1,6	3,6	10,2	8	9	8,3

Source: Petrosani National Pit Coal Company

Despite the substantial compensatory pays which followed the workers' application for the termination of contract and which temporarily substituted their income, the signs of a slump were inevitable; the attempt of central and local authorities to manage this crisis proved to be out of context and fragmented, and inefficient.

The decline of mining activities generated a "cascade" effect which marked the evolution of regional economy. Besides mining which means extracting coal, a series of companies the activity of which is closely related to these mines have been dramatically influenced by this mine reorganization process (for example in 1997, the main activity of UPSRUEEMP was to produce spare parts for the equipment used by mines and it provided service for this equipment as well for other electro-technical equipment used in mining activities) as they started dismissing workers and they reconverted their object of activity in their trial to adapt to the new conditions. Following the interdependence chain income-consumption-investments, it is obvious that the activity of the entire region affected by an income decrease, and by a consumption reduction as well is going to be restricted/limited; economic agents who have nothing in common with mining also face financial difficulties, as the demands and profits, respectively are severely threatened. On the other hand, the poverty of the region does not attract potential investors.

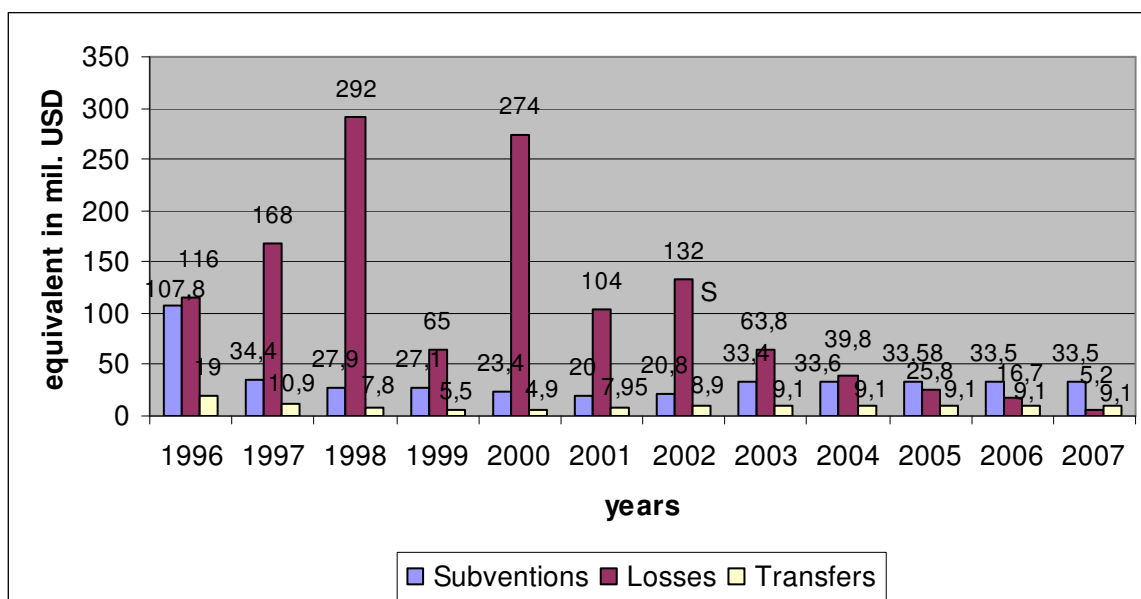
The insecure living standard did not help the improvement of services destined to consumption and the training of workers did not stimulate the reconversion of local economies. It is easy to imagine the fact that the dismissal of a great number of miners together with those employed in interconnected jobs, with graduates of various schools, as well as with other people who wanted to enter the labour market (generally, in a miner's family, the husband represented the main income source, therefore after losing their jobs they faced financial difficulties and many of the miners' wives had to find a job) "have flooded" the labour market in a very short period of time, and it was practically impossible to be concordant with an appropriate labour demand.

In conclusion, the attempt to limit subventions by reducing labour costs as a result of personnel dismissals led to a local economic downfall (mainly characterized by reduced living standards, poverty, severe unemployment, poor quality social services, etc.); since this has been the first dismissal in 11 years and because of the lack of a viable alternative to reducing mining activities, the economy still depends on the coal mining industry in this area.

Unfortunately, the evolution of subventions and transfers toward Petrosani National Pit Coal Company during the same period of time did not result in a considerable improvement of the results registered at the company level; the World Bank asserts that "the lack of a limitation of the mine budgets has led to a strong dependency on subventions, despite heavy personnel dismissals."

The troubles that Petrosani National Pit Coal Company faces, makes it impossible to pay debts to local budgets and reduces the authority's ability to improve the infrastructure, to offer good quality social services, to create proper conditions for the development of existing businesses and to attract potential external investors.

Chart no.1
The Evolution of subventions and transfers



Source: Petrosani National Pit Coal Company

Accepting the fact that regional economic development depends on the subventions granted to Jiu Valley pit coal mines, we consider advantageous and opportune some of the changes regarding the activity of central authorities. This does not imply a very big effort from the government and by this we mean the need to establish an exact and transparent mechanism for supervising/controlling subventions from the budget, a mechanism which controls real transfers – both nominal and implicit subventions – at the level of the company or sector; the government’s task is to find the necessary evidence/arguments in the subvention analysis in order to choose/set the objectives and to ensure the fact that the program meets the subventions rules outlined in the mining strategy. The results of the analysis must be widely distributed so that they could build the necessary foundation for a right and transparent reorganization of the mining sector.

Seen from the point of view of the entire national market, subventions are more of a decision which prevails over the political and social criterion, rather than over the economic one; this is difficult to accept by economists who are “trapped” into putting the economic criterion in front of others when it comes to decision making; at the regional level, this seems to be right, the “sacrifice” of each is smaller and easier to cope with/take as compared to “sacrificing” the entire area.

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