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## THE IMPACT OF THE TRANSLATIONS OF KEYNES' WORKS ON THE ROMANIAN ECONOMY

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### ABSTRACT

*In this article, we analyze both the impact of the translations of Keynes' works, but also of Keynes' ideas on the Romanian economy. Therefore, we try to make a comparison between the two editions of The General Theory of Employment, Interest and Money, written by John Maynard Keynes, translated in Romanian. More, we debate the present trend of monetary and fiscal policy as there is a big connection between it and Keynes' ideas from The General Theory of Employment, Interest and Money. As due to our knowledge only this work of Keynes is translated in Romanian, we focus only on this one.*

The General Theory of Employment, Interest and Money, written by John Maynard Keynes in answer to the postulates of the classical theory – whose representatives were John Stuart Mill, David Ricardo, Edgeworth, Pigou – was translated in Romanian in two editions. The first edition was realized in 1970 by L. Stroja, being printed by the Printing House “Editura Științifică”, while the second was completed in 2009 by Corina Mădălina Haita, being printed by “Editura Publica”.

Following a comparison between the two translations, both of these books preserve, as it is normal, the ideas of the original book written in English. The differences that appear are related to the economic notions specific for each period, for instance in the 1970s, the Romanian translation for the English “labor force” was “mână de lucru”, whereas today it is “forță de muncă” or the translation of the English term “production” used to be “produs” and now is “productivitate”, and the translation for the English word “aggregate” used to be “global” and now is “agregat”.

Moreover, translations are generally used by the large public that wants a better information or by the students who study Economics at the discipline Economic Doctrines (where, among others, they study Keynes), yet the researchers in economy, who, most of them, are actually familiar with several foreign languages, make use – more often than not – of materials written abroad, considering their increasing number, while the number of those in Romanian is extremely small. It is for this very reason that we cannot really talk about an impact of the translation of certain works, such as the work of Keynes, on the Romanian economy.

What we can really analyze is the impact of Keynes' theories on the Romanian economy, and in this paper we will focus on the impact of Keynes's ideas on the Romanian economy, highlighted for The General Theory of Employment, Interest and Money.

The present trend in thinking concerning the monetary policy is the Neo-Keynesianism of the New Classical School. Actually, the latter represents the theoretical core of the macroeconomic analysis and forecast framework used at present by most central banks (among which there is also the National Bank of Romania) (Dorina Antohi, Ioana Udrea, 2011).



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The New Keynesian Economy tries to adapt microeconomics to the macroeconomic domain, and the key element of this approach is the premise of the existence of imperfect and incomplete markets and information. This trend supports the idea that, by means of adequate monetary and budgetary measures, one can create an economic environment favorable to the market economy. It is also held that the monetary measures taken by the central bank, and the government's budgetary measures, can delineate the framework of the relative stabilization policies of the socioeconomic development (Adam, 2011). The respective policies need to be coordinated in order to attain the goals of an economy in progress benefiting of a reasonable price stability and exploiting the productive capacity.

The important elements of this school are: reasonable expectations (which come from the neo-classics), nominal rigidities (prices, salaries), difference between the nominal and the real interest rate, difference between short term interest and long term interest and the classical dichotomy.

Among the elements mentioned above, the nominal rigidities are those that appear in Keynes' The General Theory of Employment, Interest and Money, the differences between the interest rates appearing in other works, namely in Tract on Monetary Reform (1923), followed by Treatise on Money (1930), yet in this paper we will focus our attention only on the elements kept from Keynes' General Theory.

The nominal rigidities – in the sense suggested by Keynes and later on formally formulated by other economists – seem to occupy the central place among the possible imperfections, having the role to explain why and how the monetary shocks – and other such modifications of the aggregate demand - affect the production level, at least in the short run.

If one admits the fact that the adjustments of the individual prices are not synchronized, then the level of the prices will increase only if some firms will want to increase their relative prices. Once the prices level has fully adapted to the increase of the cash quantity, and the demand and offer have returned to the initial level, the relative prices changed by the producers will also reach the previous level – the one they had before the increase of the money offer; yet, this will happen only by the end of the adjustment process, which has a very significant implication: the adjustment speed for the price level depends on the elasticity of the relative prices desired by the producers following the demand changes. The greater this elasticity and the more the producers will tend to increase the prices at the moment of the adjustment, the faster the prices level will increase and so the shorter the effects of the cash quantity on the prices will be.

This observation usually takes on the following form: in order to be able to explain the substantial nominal rigidity of the prices in economy, it is necessary that real rigidities may be present – such as this low elasticity of the prices desired by the producers when the demand changes (Dobrescu, 2006). The above-mentioned implication is very important, as it highlights the existence of an interaction between the nominal rigidities and other types of imperfections present in the economy. If these imperfections are of such a nature as to generate real rigidities – a fact that is really questionable – then they can contribute to the explanation of the substantial nominal rigidities observed in the modern economies. The analysis of the real rigidities obligatorily has to clarify the reasons why ample employment and labor output changes are accompanied only by small modifications of the real salaries. In this context, among the active topics dealt with by the theoretical and empirical research, there are: efficiency wages models, market externalities, imperfections of the capital market, the cyclical evolution of the demand elasticity, and a variety of other potential sources of the real rigidity. (David Romer, 1993)

Greenwald and Stiglitz in their work Keynesian, New Keynesian and New Classical Economics essentially study the major ingredients of this new approach, namely the efficiency wages theory, the imperfections of the capital market, credit limitation and a revised vision on the monetary policy role.

At the basis of the efficiency wages models are a series of premises, among which the most important are: i) the information concerning the workers' features is imperfect; ii) the employees' individual actions can never be perfectly monitored; iii) it is impossible to draw such a work contract as to make sure that the workers bear the full consequences of their own actions. Following these hypotheses, the quality and productivity of the labor force – and implicitly the firm's profits - tend to increase with the salary paid to the employee. Similarly, the personnel rotation tends to decrease with the salary increase, and, since the firms bear a part of the costs of the employees' departure, it is probable that profits will increase simultaneously to salaries, up to a certain point. Even under unemployment



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conditions, salaries will not decrease, as the firms realize that their reduction will mean a reduction in productivity, the workers' departure and so, a reduction in profits. In such an approach, the firms are competitive – there are numerous such firms on the market – and yet, the firms are the ones that set the salaries, being the ones that help shape the price. In the case in which the Walrasian salary – for which the labor demand and offer are equal – is too low, any firm has the possibility to increase the salaries and therefore the profits. The “efficiency wage”, which maximizes the corporate profits – can vary depending on the economic circumstances, which means that it is not absolutely rigid; yet, on the other hand, it will not adjust to the balance level. In this way, the implications of these theories in the area of the economic policy can be substantially different from the standard models, incorporating fixed prices and/or salaries. The latter held that the economic policy measures have no effect on the salaries paid by the firms. The efficiency wages models, on the other hand, state that certain policies – such as, for instance, the policy concerning the unemployment benefit – may even have strong effects on the balance salary, and so the consequences of these policies need to be taken into account.

One of the main objections made to this theory claims that the presence of the salary rigidity in certain economic sectors is not enough to explain unemployment; as long as there is at least a sector in which salaries are flexible, any worker who chooses not to work in that sector can be considered as voluntarily unemployed. Yet, this objection is not substantiated for several reasons; first of all, we should not forget that the labor market is made up of segments that are little concurrential and which, more often than not, cannot replace one another except on condition that the workers should obtain another qualification; for this reason we could even speak of distinct markets. In this sense, as Stiglitz states, the people hired in the sector with more flexible salaries are actually hired for higher wages, which makes the balance inefficient and leaves certain resources unused – resources which otherwise could have been used efficiently.

The efficiency wages theories explain why salaries fail to balance the labor market. Analogous models for the capital market explain why interest rates are unable to equal the credit offer and the credit demand (J.E.Stiglitz, A.M.Weiss,1981).

More generally, Akerlof and Yellen (1985) have shown that, even when the firms should modify the salaries that they pay, they may choose not to do it. The authors prove that the loss occasioned by this “almost rational” behavior may be small, yet it is big for society. Indeed, in the hypothesis in which firms are characterized by aversion to risk, there is also a certain uncertainty concerning the consequences of a salary modification; so, keeping the salaries constant when certain perturbations appear is absolutely rational. Reasoning in a similar way - state Greenwald and Stiglitz - this argument is also valid for the capital markets.

Moreover, the efficiency wages models prove why corporate salaries are interdependent: the optimal salary for any firm depends on the salary paid by all the other firms on the market. This interdependence may lead to multiple balance states, in which no firm changes its salaries, not even when it modifies the labor demand – and this is again valid for the capital market and the goods and services market as well. In this way – providing an explanation for the rigidity of the salaries, of the interest rates and of the prices - these theories help us understand why certain perturbations are amplified as a result of the repercussions they induce in the economic system. Yet, this amplification of the perturbations relies as well on other reasons: the existence of imperfect markets and information leads to the fact that a firm's or an individual's actions trigger a strong influence on the others' actions; the decrease of a firm's production in answer to an increased degree of uncertainty or a decrease in the labor capital leads to an increased uncertainty and a production and/or capital decrease in other firms. While the adjustment of the prices usually attenuates or alleviates the perturbations, such externalization effects tend to amplify them.

Moreover, in his work *The General Theory of Employment, Interest and Money*, Keynes supports the idea of trust in the fiscal control, an idea which can actually be encountered nowadays as well, especially following the financial shocks felt in the European Union and following the issue of the sovereign debt that some countries of the euro zone are faced with. The adoption of the Fiscal Compact, which is to come into force beginning with 2013, including in the case of Romania, represents a proof of the increasingly higher accent placed on regulation, so on a more rigorous fiscal-budgetary control. One of the objectives supposes a structural deficit of 0.5% of the GDP and of 1% of the GDP in case the public debt is significantly lower than 60% of the GDP and the long term risks



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concerning the fiscal stability are reduced, the structural deficit being that part of the budgetary deficit that has to do with discretionary policies.

To conclude, we can notice that in the development of the Romanian economic policies – both in the monetary and the fiscal policy - one can find essential elements of Keynes' theories, not just from the work submitted to the present analysis, but also from his other works as well.

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