

## **SOCIAL COSTS AND (OR) ERRORS' COST DURING THE TRANSITION PROCESS IN ROMANIA**

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The issue of social costs is relatively old in the field of sociological debates and not only. It seems that the term was introduced by the sociologist J.C. Simondi in his work "New Principles of Political Economy" (1819)<sup>1</sup>. A.C. Pigon (Economics of Welfare, 1920) introduced the concept in the system of neo-classical economies by showing the negative effects that investments can produce at the various levels of people's lives such as destructuring neighborhoods by building factories in residential areas, the effects of advertisements on consumers, the increase of expenses for the police and penitentiaries' maintenance with the increase of the alcoholic products selling etc. K. William Kapp in his work "The Social Costs of Private Enterprise" (1950) offers a more complete view of the problem by introducing aspects such as the effects at the occupational level, pollution, diseases, unemployment etc.

A more detailed analysis from a sociological point of view is given by D. Bell (in the above mentioned work) in which the author shows the necessity of a social evaluation system which "would enlarge our concepts about costs and benefit and which would place the economic evaluation within a larger framework"<sup>2</sup>. Bell offers an operational scheme regarding the use of human resources in four fields: a) measuring the social costs and innovation benefits; b) measuring the 'social diseases' (crime or family breaking, etc.), c) the

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<sup>1</sup> See Daniel Bell, *The coming of Post-Industrial Society*, New York, Basic Books, Inc., Publishers, 1921, pp. 281, 330.

<sup>2</sup> *Ibid.*, p. 326.

creation of 'budgets' in fields connected to social necessities (accommodation, education etc), d) indicators of social mobility and economic chances.

A definition of social cost is given by the dictionary of sociology which states that "social cost 1. economic and non-economic resources spent for the achievement of a social activity, 2. spent resources to which we add the secondary negative effects of a social activity"<sup>3</sup>. Throughout our study we will try to define a more detailed definition of social costs.

The social costs of the change processes becomes today a central theme given the big social displacement which a series of processes (such as globalization, the transition from the industrial type of societies towards the knowledge type of societies, the increase of the territorial, occupational and competitive mobility) directly or indirectly generate.

An important work by Robert B. Reich<sup>4</sup> pays attention to the profound social costs generated by the intermingling of several processes such as globalization and informatization: "We are travelling now in different boats among which one is sinking rapidly, another more slowly and the third advances continuously. The boat which takes the routine production workers sinks rapidly. [...]. The second among the three boats on which we find the individual service providers is sinking as well and in a more unequal rhythm [...]. Anyway, as opposed to the boats in which we find the routine workers and the individual service providers the ship which carries the American conceptual analysts is advancing"<sup>5</sup>.

Finally, the recently elaborated materials even in the European Union point towards some major negative effects which can appear (and have done so) as a consequence of the extremely unequal progress of some countries towards what they call the society of knowledge. In a vast study carried out recently a series of negative effects are

<sup>3</sup> *Dictionar de Sociologie* (coord. Catalin Zamfir, Lazar Vlasceanu), Bucharest, Babel Publishing House, 1993, p. 143.

<sup>4</sup> Robert B. Reich, *Munca natunilor. Pregatindu-ne pentru capitalismul secolului XXI*, Bucuresti, Paideea Publishing House, 1996 (1991 1st edition).

<sup>5</sup> *Ibid.*, p. 179-180, 185, 188.

identified, effects which are the result of the different capacity of some countries to transform knowledge into a main resource, the measurement of the new type of national wealth and a way towards power. In this context we find the following requirements: "Considering the crucial importance of knowledge for the economic development and social welfare the political measures need to avoid any division of the European Union between a center of knowledge and a periphery of knowledge"<sup>6</sup>

The above-mentioned published volume indicates various ways of this new division (of a real significance for Romania) such as the migration of specialists towards the United States, insufficient funds for research and innovation, reduced attention paid to the social diffusion of inventions, towards enterprises, the reduced role of the small and medium size enterprises in the promotion of the technologic development, the existence of some disadvantaged categories, etc.

In fact the attention of the European Union is centered around this last aspect nowadays. A recent report of the Commission for Employment and Social Affairs of the EU has examined the new inequalities which have appeared among the various population groups such as the gap between the workers with high and low salaries as well as the risks for many countries given the already mentioned situation.<sup>7</sup> The document also notices the inequality situation in which some women find themselves particularly in the scientific research field.<sup>8</sup>

All these discussions directly concern us. In what follows we would like to sketch a mode of analysis of the social costs from the perspective of the transition processes in Romania.

Any social change implies, together with some possible positive effects, some negative ones connected not only to the ones who directly suffer the actions meant to ensure the transition from one state to another ( the driving away from power of some social groups,

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<sup>6</sup> *Knowledge and Learning - Towards a Learning Europe*, Joint Research Center, European Commission, Seville, Spain, 1999, p IV, see also p. 10.

<sup>7</sup> *Exploding the Jobs Myth*, in *Euroabstracts*, European Commission, Luxembourg, 40th vol., 1, 2002, p. 4.

<sup>8</sup> *Ibid.*, p. 6

the loss of some privileges, the replacement of some economic hierarchies or other types of hierarchies etc.) but also to those who should benefit by the advantages of the new states of work. The social changes cannot take place without the defeat of some obstacles and difficulties, without resource consumption (material as well as human), but also without replacing the previously existing state. The definition of the innovation given by J. Schumpeter as being a "creative destruction" thus reveals the two correlated sides of the changes in which the benefic element is present (as opposed to the ones in which solely the negative, malefic aspects are present).

The transition which Romania experiences (or should be experiencing) cannot be understood unless we take into account the complementarity of the benefic results (which justify its social direction) and the negative ones. Therefore, transition presupposes negative effects as well, but not any negative effects of the changes mean that we face a transition process. We would like to discuss exactly the lack of this mutual implication (between transition and the negative effects of the change).

Unfortunately the analyses which have been made sometimes with respect to the transition process in Romania, in the political debates we can frequently find the concept of the 'social cost' in the erronated, according to our opinion, argumentation sustaining that in case we want transition we should implicitly accept the 'social costs of the transition' without though demonstrate that what we consider as being the 'social cost of the transition' expresses, indeed, a (necessary) inevitable negative effect of the achievement of some benefic changes required (desirable, preferred) by its accomplishment.

*We will start thus from the necessity to operate a clear cut distinction between two types of social realities (negative effects) of the transition, i.e. between the social costs and the costs of the errors (un-accomplishments) connected to transition.*

The concept of 'social cost' does not refer to an unmediated empirical reality directly observable, but to a theoretical construct, in other words it is elaborated (or rather should be elaborated) within a theoretical framework, according to a diagnosis-type analysis. The negative effects of transition can be empirically identified. The

increase, for example, of the unemployed proportion is a negative aspect for it implies people who are no longer able to find a way of valorizing and valorification of their personality, who no longer have ensured the resources necessary for their existence, people who feel marginalized, useless, excluded etc. But the analysis of unemployment in its quality of 'transition social cost' supposes another type of analysis that the one which identifies (by figures or mere observations) the existence of people who can no longer find a place to work. In order for the unemployment to be designated by the 'social cost' concept (the concepts are terms elaborated theoretically and have a meaning within 'the space of a certain scientific theory') it is necessary to prove that unemployment represents a negative effect (unwanted, but necessarily to be accepted) of the accomplishment of some mostly benefic changes without which transition cannot take place.

But in order to operate with this conceptualization (to convert an empirical fact - the unemployment - into a theoretically constructed term) we need a well-elaborated theoretical model which would clearly indicate which types of changes we consider necessary in the accomplishment of the transition and which, if realized, imply (with a certain degree of inevitability) some negative effects as well.

It is essential that:

1. the positive effects of the changes would surpass (in the society's plan) the negative ones, to exist 'a social rationality' of the measures which have been taken, so that there will not be instead of the 'creative destruction' a mere 'sterile destruction' which does not bring any benefit to the people, for the costs without transition cannot be considered, theoretically, transition costs.
2. the negative effects should be direct results and relatively, inevitable, of the benefic changes presupposed by the desirable theoretical model of the transition and not arising from actions which are not connected to the established objectives of the transition, to express therefore a social effectiveness (as relation between the envisaged goals and the obtained results) together with which we also have 'perverse effects' resulted

- from the 'desirable effects' and not only 'perversions of the human actions'.
3. the direct negative effects should be justly distributed in the society, there should exist an 'equitable social distribution' of the social costs to stop the reproduction of the well-known paradox of Brooks Harvey (according to which the benefits become the privileges of some groups while the costs are bore by other groups).

We could discuss correctly about the transition social costs only by making an analysis of (at least) the above mentioned three criteria.

Unfortunately such a research is not normally carried out, usually the debate going only around the 'transition social costs' without identifying to what extent together with these costs we could also speak about transition, fact which generated some negative effects (that themselves are not costs of the transition but of the errors) such as:

- a. The transition discrediting (among some categories of the population) through the incorrect, unaccepted correlation of the numerous negative effects of the changes which take place in our country (unemployment, inflation, the decrease of the living standard, violence, disappointments, big social discrepancies) with the thesis that 'he who accepts the transition should also accept those social costs'. In fact, as we will try to show, not all those negative effects are the expression of the necessity of transition, many of them having no connection with it, which creates a distorted image of what the transition could indeed be and what it could offer to the people. By a distortion of the image (the transition goal loses the social rationality by its incorrect correlation with means that do not bring anything good to the people) the mere transition process can be compromised.
- b. The justification of errors (and even of the inaccuracy) made

by some under the false argument "so the transition requires". Without having an appreciation framework (a theoretical model that would indicate what we seek, with what purpose and results) of the results of the actions undertaken by some (politicians, business men etc.) as compared to what would be necessary and beneficial, any error (necessary, or even wanted) can be included under the 'social cost' chapter and, thus, it becomes justified, the responsibility of those who make it becoming null.

We can conclude from this short analysis that:

- the concept of 'social cost' represents a theoretical construct mean to properly explain some categories of phenomena based on a coherent and sufficient set of criteria which should satisfy the two rules: 1. The saturation rule (no phenomenon to be considered as 'social cost' should not be omitted from this conceptualization); 2. The exclusion rule (no phenomenon which cannot be considered as 'social cost' should not be included in this conceptualization)
- the concept of 'social cost' has a diagnosis value having the function of evaluative knowledge capable to assign negative value to some social phenomena to the extent to which they correspond to those criteria of construction of the concept
- the 'social cost' concept expresses the evaluation of a practice connected to a desirable (beneficial) theoretical model of the envisaged changes and so, in order to establish what a social cost is (or is not) we should firstly elaborate and explicitly formulate such a model of what the transition should represent (as a normative-theoretical aspect). In other words, we should answer one fundamental question: How would we like Romania to be (within an accessible process) when we say that, generally that transition is over, how could we achieve this goal and which is, as an essential element the goal (that such a transition would offer the people).

From this perspective we offer the following *working definitions*:

- The social costs represent those negative effects resulted directly and relatively inevitably out of the accomplishment of the necessary and beneficial measures of transition.
- The errors' costs represent those negative effects resulted out of the errors, unaccomplishments, and inconsistencies produced by the human activity (some well-identified actors) during the transition period.

Therefore, which would be the possible beneficial model of the transition (the alternative models with various degrees of accessibility and desirability) according to which we could judge the social costs and (or) the errors' costs of the transition?

Without going into details we only mention here the necessity of taking into account the existence of two types of transition: a. The transition which takes place in the ex-communist countries which should have as goal the building of a modern society that would offer people the conditions of a prosperous life, social security and relations based on the values and norms of the co-habiting and human cooperation (solidarity, aid, responsibility, equality, liberty, fairness and truth, etc.) and as a means the achievement of a capitalist dynamic and competitive at the world level market economy, of a constitutional democracy, integration in the euro-atlantic structures, more and more civilized life conditions; b. The transitions of the advanced Western countries today, from the industrial type of society towards the postindustrial type centered around man (according to the European Union expression).

In this context, so that our country's evolution would follow a beneficial path in which the social costs would be minimized and the positive ones maximized it is necessary to group the two types of transition, i.e. the solving of the internal transition tasks with the ones regarding the international context. The changes which could find a socio-human justification and which could be correlated with what we could correctly term as social costs are only those which lead us

towards a modern, democratic society, with a better life for the people and with a real competitiveness and cooperation at the world level.

There is much talk around the idea of restructuring. This finds its justification to the extent in which there is accomplished an economy capable to better valorize our resources (including the human ones) and by this, to serve the transition purpose. The closing down of some enterprises can be appreciated only if it is correlated with the appearance of some new and viable ones and the modernization of the existing ones that have to be maintained and consolidated for they constitute basic component parts in the achievement of the type of economy we would like to accomplish (according to the elaborated and practiced model). Without having this model, without seeing to what extent the closing down of some enterprises helps us building something and not only destroy (in the sense of Schumpeter's idea of creative destruction) it is difficult to judge the sense of some measures. The unemployment which increases may be considered as expressing a social cost only if it results from the accomplishment of the transition requirements. The unemployment can increase though even in the absence of some real advancement of the transition, being just an effect of stagnation, of the transition's blocking, of errors and inconsistencies.

The decrease of the living standard for some categories of population (affected by unemployment and inflation) can, as well, be considered a social cost of transition with the condition that it would be a direct and necessary consequence of the closing down of enterprises which no longer have the socio-economic justification, of some liberalizing measures of the economic relations, of modernizing technologies, etc. If those requirements are not ensured the deterioration of the living standard is nothing but the cost of errors.

There has been much talking about the 'shock therapies' or 'mild therapies'. The difference between them does not reflect in the time interval in which the changes take place, but in the way they actually do take place. We can also talk about a 'critical mass' of the costs. Experience shows that the delay of the transition and the inconsistency in its promotion lead to greater and more numerous negative effects than a consistent and well-designed pursuing of the

transition. There is no single transition strategy, but ways and alternative strategies which differ among themselves by the way in which changes are designed in order to maximize the benefits and reduce the negative effects. Obviously, there are various transition ideologies and policies. The thesis launched quite a long time ago and which is still used, thesis according to which we should be more 'pragmatic' does not make anything but lead us towards an empirical action lacking a real orientation and which could justify amateurism, lack of professionalism and errors.

The 'shock' therapy conceived as a well-designed thinking and knowledge can create more reduced social costs. The 'shock' does not refer to the effects on people, but to the depth and rhythm of the beneficial changes. Such a 'shock therapy' spares the society of a prolonged crisis which worsens just by its being unsolved. The social costs can be reduced by ensuring social security and not, especially, by social protection.

Social security implies an active policy of promoting the beneficial changes that would offer people life conditions so that they won't need to make use of the social protection measurements. Effectively accomplishing the transition we can create new work places, increase the population's income and the state budget, so that the people won't need to address the society in order to get 'help'.

The social protection is meant to offer help to those (groups with high vulnerability risk) that cannot ensure themselves by their own means the minimum living conditions. As opposed to the social security which seeks to prevent the transition's negative effects, the social protection wants to help those who were affected by those effects treating people as passive consumers.

A good social policy is that which succeeds in reducing the social costs of prevention and restraint of the negative effects of the beneficial changes and the (maximum) avoiding the errors costs, in other words the transition's social policies should emphasize the social security and make use of the social protection only in the case when the negative effects are unavoidable. It is more human and efficient to avoid unemployment through measure of stimulating business, create work places, subsidizing productive activities rather

than paying unemployment benefits or aid to people who perceive themselves as marginalized and become useless for the society.

From this point of view we should follow two correlated perspectives concerning the social costs analysis: a structural and another at the individual level.

Transition requires structural changes which generate costs for the overall society: the increase of the unemployed, inflation, the decrease of the average living standard, difficulties in helping the poor, handicapped, children, increase in the criminality level etc. Studies at the macrosocial level are useful by seeking to reveal the changes' degree of rationality (previously mentioned). But this perspective suffers from a depersonalization of a severe socio-human problem. "Behind" the number of the unemployed there are individualized human lives, with their specific problems and tragedies. That is why the structural macrosocial analysis of the costs must be doubled by an individualized one, personalized, of the type of studies regarding the social actors.

Each person has his own action strategy during the transition period, with his/her own intention and motivation, his/her own specific life problems, expectations and own availability to give up.

The macrosocial analysis of the social costs neglects their proportion in the society, the degree of equity in the share for each person (group) of the benefits or negative effects.

The transition brings new groups which promote changes and which benefit by their advantage, just as it reveals groups which seek to block the changes or which suffer from their negative effects. The way in which these situations are distributed: part of the transition's beneficiaries are not the ones who seek to promote it, just as the 'losers' are not all against it. A good transition strategy cannot limit itself to the ensuring of some correct from a macro-structural point of view ration between the benefic and malefic changes. It should deal with their distribution within society.

The psycho-social problem of costs is an essential aspect of the transition analysis. Sometimes there is a discordance between the macrosocial sense of some changes and the individual motivations connected to it. Democracy can be used to satisfy some antisocial

interests (voting for the ones who do not aim to promote the benefic changes), the social security can become an argument in the fight against the economic restructuring and privatization, the request for a better life can hide an intention of illicit gains or by an egoistic life, lacked of the values of cooperation and solidarity etc.

The social costs and the errors cost become thus more differentiated. We have symbolic costs (the devaluing of some activities, values and behaviors), costs which are generally intangible (disappointment, loss of motivation, the human relations deterioration, orientation towards egoist mentalities based on the request of 'to have' and not 'to be' etc.)

The transition's 'winners' and 'losers', the rue exponents of what is abstractly called 'benefits' and 'costs' make up a new configuration of the Romanian society which needs to be known and understood. In this sense, the strictly statistical depersonalized analyses are not enough. The ones who suffer due to the negative effects of the transition (justified or not) cannot accept this situation if given a macrosocial 'argument' ("only in this way it will be better for the majority of us").

The transition costs become a social responsibility and normal functioning problem of a truly democratic regime in which the majority has not only the right to decide but also the obligation to become preoccupied by all members of the society. The goal cannot justify the means if it contradicts the values which the goal builds. The social policies become thus essential elements of transition, evaluating criteria of the desirability of the alternative way to follow. If the transition requires social costs (in the real sense of the term) then these should be 'paid' as equitably as possible by the entire society.

The society which would be accomplished after the transition period would obviously be characterized by a series of differences and inequalities, but these should ensure, though, the elementary living conditions and possibilities of competition, in which social injustice should be replaced by the just distribution of the changes costs and benefits.