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MALTHUSIANISM VERSUS LIBERTARIANISM: AN INTERDISCIPLINARY COMPARATIVE ANALYSIS ON POPULATION, NATURAL RESOURCES, AND MIGRATION THEORETICAL ISSUES

*Cristian Manolachi**

Abstract

In the last five decades, the intellectual world has taken two sides in the public debate on the sensitive issues of economic growth, population growth, natural resources scarcity, and free migration, one pessimistic (Malthusian) and the other optimistic (libertarian). The aim of this paper is to trace back the intellectual origins, be they economic, historical, philosophical, or even in the field of biology, of these contemporary concerns. Therefore, the question that arises is whether we can rely on the gloomy predictions of Thomas Malthus, the law of diminishing returns, and the idea that a growing population will put overwhelming pressure on natural resources?! Or shall we rely on the arguments of his more recent challenger, Julian Simon (1996), who shows that a larger population will necessarily add more innovative minds, and that accumulated knowledge and innovation will more than compensate for the so-called law of diminishing returns, providing a plentiful existence for humankind?! Next, we will examine the arguments of intellectuals who have dealt with the problems of population, natural resources, and migration, Malthus's opponents, and admirers alike. We seek to bring to the table a fresh perspective on the subject through interdisciplinary comparative analysis.

Keywords: *Malthusianism, Libertarianism, human migration, environmental concerns, population growth*

JEL Classification: O13, Q56, F22.

1. Introduction

Although economics followed the path inspired by David Ricardo – a classical liberal contemporary to Malthus – the reformed pastor's influence was extraordinary, shaping the world's demographic policies right up to this day. Malthus inspired top scientists, like Darwin and Keynes, as well as upsetting Marx and Proudhon. The latter, while agreeing with his premises regarding capitalism malfunction, accused him of failing to empathize with the oppressed (Popescu, 2009, p. 256).

After Malthus's essay, intellectual debates on the population problem ceased to be open, as the world of economists and philosophers split into his

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imitators or fierce opponents. Today, more than ever, there is a vibrant academic debate, closely followed by mass-media and the public, on environmental policy, population growth, and migration.

But one cannot really discuss population without placing it in the context of available natural resources, given Malthus's emphasis on human dependence on existing supplies of food and energy. While it is intuitive to believe that our resources must eventually run out, Julian Simon challenges the almost unanimous belief that the theory of finitism has a real scientific basis: why, in relative terms – i.e., measuring the increase in the price of key commodities over a given period in relation to the increase in population income over the same period – are key natural resources more accessible than ever before, despite rapid population growth and despite fashionable panic theories that natural resources are under unbearable pressure?

This study will attempt to address the Malthusian hypothesis by examining the ideas of mainstream and unconventional economists, top-tier historians, and Nobel Prize-winning biologists.

2. Theoretical Background

The problem of population has been a concern of philosophers since ancient times, such as the famous imaginary city created by the Greek philosopher Plato (Platon, 2010), in his book „The Republic“. Plato's perfect city was made up of exactly 5040 people (or families!), organized into different clusters to create an ideal society.

The more serious interest in the study of population came with the rise of manufacturing in the Western world, in the eighteenth century, which coincided with the emergence of the first economists (Schumpeter, 2010, p. 172). Until then, economic problems had been addressed by philosophers or theologians, and it was only when humanity was confronted with the dynamics and complexity of the free-market system that political economy emerged as an independent science (Heilbroner, 1994, pp. 19-45), and demography came to light.

Later, economists agreed that religious beliefs can have an impact on how the economy works. Weber (2003) says that the Calvinist theory of predestination brought prosperity to Protestant societies. The economy can also be influenced by the behaviors and customs of people at different times in history. Paul Hazard (2007) talked about how in the late 1600s, people's worries and curiosity led them to travel and swap ideas, which eventually led to the Age of Enlightenment. Today, we're still trying to figure out how economic performance and population rates are related.

Classical liberals have taken demographic issues seriously. According to Smith (2011, p. 134), population growth was not a threat, did not portend an apocalypse, and even led to prosperity. Although he recognizes that children may be a burden to their family, he immediately discovers a profitable use for

them in the households of typical eighteenth-century rural societies (Smith, 2011, p. 135). This view would change just two decades after the publication of *The Wealth of Nations*. Thomas Malthus and David Ricardo were to challenge Adam Smith's optimism by predicting a grim fate for humanity, not because of some accident of history, but because of a natural, non-historical (Valier, 2009, p. 45), fatalistic law that no one can oppose and according to which agriculture operates the so-called law of diminishing returns.

Therefore, we will look critically, analytically, and comparatively at the twentieth century writings of the historian Pierre Chaunu, the biologist Konrad Lorenz, and the economists Paul Samuelson, James Galbraith, and Julian Simon. We will not exclude from our analysis the contributions of leading philosophers and economists such as Adam Smith, Charles Darwin, Joseph Schumpeter, Simon Kuznets, Milton Friedman, Ludwig von Mises. Finally, the discussion section of this article will contrast the Malthusian theory with the arguments of Julian Simon (1996, p. 281), the latter claiming that the extraordinary increase in the number of individuals populating the Earth is the best evidence that humans have overcome all the challenges that have arisen over the past hundreds of thousands of years; generation after generation has produced more than it consumed thanks to their ingenuity.

3. Methodology

In this paper we aim to provide a critical and comparative analysis (as can be seen in Walk, 1998) of Thomas Malthus and Julian Simon's economic theories. Additionally, we will examine the contributions of other economists, historians, philosophers, and sociologists to the study of population growth, natural resource shortages, and human migration.

We will try to break away as much as possible from the positivist perspective towards the subject, where only the scientific nature of the quantitative and the tangible counts (Comte, 2019, p. 7): „the science of Society [...] supplies the only logical and scientific link by which all our varied observations of phenomena can be brought into one consistent whole.“ Nor will we fall into the trap of classical historical inquiry, with its focus solely on qualitative, cultural, descriptive, and detailed analysis. The goal is to find the middle ground, as Weber argued (Ragin & Zaret, 1983, pp. 732-734), between the limited generalizability of theoretical concepts and the distortions of historical reality (Igersheim & Chapelain, 2006, p. 246). Eventually, we hope to regain the universal, comprehensive perspective that only the history of economic thought can provide, a field that has been in academic decline since the 1950s (Gordon, 1965, pp. 119 *sqq.*).

This work is unique only to the extent that the author's readings in the history of economic thought, interests in international affairs and economics, and historical knowledge can provide new insights into the critical

interpretation of writings related to the study of migration, population, and natural resources.

4. Comparative analysis

Considering our subsequent intellectual debate, we will revisit the Malthusian theory here – even if it may look redundant to some specialists.

Due to the law of diminishing returns, new farmland brought into circulation will be less productive than existing farmland, because people will first cultivate the most productive farmland. Therefore, people will have to work more for the same amount of food, or put it another way, for the same amount of labor, they will get less food. According to Malthus (1992), this law of nature, combined with man's unrestrained procreative instinct, will lead to the population exceeding its ability to produce food, and some of the weakest will die.

Malthus (1992, p. 22), a professor of political economy and a Reformed minister, notes that human vices and the challenges of nature lead to the misery inherent in human life, which is interpreted as a „positive“ obstacle to population growth: extreme poverty, unhealthy occupations, famine, wars, pestilence. Yet another obstacle to population growth, suggested by the Reformed minister, could be the preventive practice of moral abstinence, by refraining from marriage precisely for the reason of delaying the age of reproduction and thus reducing the number of children a married couple will have.

Population growth is seen as a *diesis* which affects most countries (Malthus, 1992, pp. 22-23) and their food production. The first to be affected by the problem of insufficient food are the weakest individuals of the lower classes, says Malthus (apud. Bonar, 1885, pp. 305-306): „A man who is born into a world already possessed, if he cannot get subsistence from his parents, on whom he has a just demand, and if the society do not want his labour, has no claim of right to the smallest portion of food, and, in fact, has no business to be where he is. At nature's mighty feast there is no vacant cover for him.“ It is here that one can see the inspiration that the Malthusian theory offers to Charles Darwin in the formulation of his theory of natural selection (see the chapter on the struggle for existence in Darwin, 2017, pp. 74-90).

Malthus (1992, p. 23) does not completely ignore the factor of individual consciousness in the reproductive instinct equation. In other words, human beings have the capacity to curb their physiological urges, but only in times of „dire poverty“, and this, combined with possible agricultural land improvement activities, will bring the population back within the limits of available means of subsistence.

Malthus highlights the problem that wages are at very low levels due to population growth, as there are more workers in the market than jobs. Later, the

socialist Ferdinand Lasalle would formulate more clearly what others before him – such as Malthus – or after him – Karl Marx – had intuited, namely the *iron law of wages*. Consequently, free competition in the capitalist system and the tendency of the population to grow condemn workers to miserable wages, point out Lasalle (apud. Footman, 1947, pp. 166-167): „This law, according to Lassalle, entails that in a world of free competition the average worker’s wage cannot exceed the bare minimum of subsistence for himself and a limited family. Increase above this minimum would result in larger workers’ families entailing an increase of available manpower, and, by the law of supply and demand, a decrease in wages. On the other hand, should wages drop below this level, families would shrink, and a shortage of manpower would force wages up again.“

4.1. Pierre Chaunu. The historian’s insight

Pierre Chaunu, a French historian and Sorbonne professor, was one of the intellectuals who analyzed Malthus considering historical context from the 17th and 18th centuries. He (Chaunu, 1986, p. 141) accuses him of mismanaging statistical data by using only the numbers that fit his theory, namely the demographic statistics of a few Irish cantons and the American English colonies. We learn that although Europe’s population doubled in the 18th century, the demographic situation was much more plastic, with variations from region to region, with statistical horizontal lines and two-way curves. Chaunu (1986, p. 181) contends in his demographic analysis of 18th-century England and Ireland that the natural increase in Ireland was merely a population growth with little significance, whereas the drop in mortality and rise in the educated led to the population explosion in England. Despite these arguments, Malthus preferred to base his model on the easy-going but dishonest and outdated Irish example, thereby becoming just another *prophet of the past*, as Chaunu (1986, p. 130) names him.

Professor Chaunu (1986, pp. 174-175) reminds us that in the 18th century, Western societies had already adopted a new pattern of marriage inspired by Christian morality. As for England, he (Chaunu, 1986, p. 179) points out that in the 17th century, a hundred years before Malthus’ essay, there was a population stagnation due to the increase in the age of marriage; thus, the Malthusian solution of abstinence is nothing more than an already patented popular practice. Moreover, people had already turned to contraceptive solutions, which means that the process of procreation remained relatively immune to the contemporary ethos (Chaunu, 1986, p. 177).

Pierre Chaunu (1986, p. 48) goes beyond the shortcoming of focusing solely on Malthusian economic dynamics and by exploring the complex social realities of the 18th century, concludes that Malthus did nothing more than „deny the humble even the simple joy of carnal love and generous birth“.

4.2. Paul Samuelson. The mainstream perspective

The Malthusian theory is thoroughly reviewed by the American Paul Samuelson, Nobel Prize winning economist and influential figure of the twentieth century. His rhetoric suggests that classical liberals only served the interests of the business class of the time, confining themselves to the abstract and dogmatic world of economic laws (Samuelson, 1961, p. 835): „to think you could deduce the laws of economics the way you deduce the laws of arithmetic and logic – without ever looking at the real world of markets; to think that there was not much that governments could do to repeal Malthus’ «iron law of wages» and the other inevitable consequences portrayed by their «dismal science»“. Samuelson's critique of the classical economists is obviously intended to justify the interventionist economic policies that were implemented in the wake of the Great Depression and are very popular today.

On Malthusian theory, Samuelson (1961, p. 27) states that „Malthus’s views depend directly on the law of diminishing returns, and they continue to have relevance“, but demographic problems would only be of concern to underdeveloped societies (Samuelson, 1961, p. 796): „The Malthusian devil of diminishing returns stalks the underdeveloped areas“. The American economist (Samuelson, 1961, 796) sees population as one of the four fundamental factors of development, along with natural resources, capital formation and technology. In this regard, the Malthusian theory cannot but contain (Samuelson, 1961, p. 28) „germs of truth“ that are needed to explain „the population behavior of India, China, and other parts of the globe where the balance of numbers and food supply is a vital factor“.

However, Samuelson (1961, p. 28) seeks to assume a balanced academic stance and admits that technological progress balances out the shortcomings of the law of diminishing returns. He blames Malthus for not anticipating the tremendous effects of innovation and not foreseeing that birth rates would fall drastically in Western societies as of the second half of the nineteenth century.

4.3. James Galbraith, Simon Kuznets, Milton Friedman, and the story of free migration

Malthus advocates the dismantling of all forms of social assistance, on the grounds that the welfare of the poor only encourages them to reproduce, leading to an even larger population of poor people, and thus more mouths to feed and deeper misery. Socialists, although agreeing with Malthus on capitalism's delusional defects, criticize the English economist for his absence of humanity.

In response, American economist James Galbraith (2016, p. 130) acknowledges the arguments of economist Simon Kuznets and agrees that the natural course of capitalism will eventually produce a tolerable egalitarian society without the need for a blood-thirsty communist revolution. These ideas are inspired by the writings of the philosopher John Stuart Mill (apud.

Heilbroner, 1994, pp. 135-145), who as early as the middle of the nineteenth century sought to find a middle way between capitalism and socialism, claiming that it was possible to separate production from distribution.

Kuznets' dynamics (apud. Galbraith, 2016, pp. 129-135; Kuznets, 1955) assumes that farmers live in a relatively egalitarian society with minimal variation in income and wealth. Subsequently, with the advent of urban industrialization, a discrepancy is created between poor rural areas and richer cities due to attractive factory wages, which is why the rural population will initially migrate massively to the cities. But as agriculture becomes more mechanized and rural areas have fewer and fewer farmers, while factories reach saturation point for workers, the gap in income, wages, and wealth between rural and urban areas will narrow. At this stage, however, great inequalities will be created in the urban population, but these too will be lessened with the support of legislation promoted by the trade union movements (Kuznets, 1955, p. 17), „much of it aimed to counteract the worst effects of rapid industrialization and urbanization“. Some kind of equilibrium is inevitable (Kuznets, 1955, p. 18): „One might thus assume a long swing in the inequality characterizing the secular income structure: widening in the early phases of economic growth when the transition from the pre-industrial to the industrial civilization was most rapid; becoming stabilized for a while; and then narrowing in the later phases.“

A group of socialists agreed with Malthus' premises and predicted the inevitable collapse of capitalism based on the iron law of wages and the law of diminishing returns – such as Karl Marx (apud. Schumpeter, 2010, pp. 69-161; Marx, 1966; Marx & Engels, 2014). Other socialist economists have done their utmost to combat Malthus, a tendency well highlighted by James Galbraith and Simon Kuznets (on Kuznets' socialist leanings, see Kapuria-Foreman & Perlman, 1995, pp. 1525-1527). The phenomenon of migration appears as a self-regulating mechanism that is essential to combat the social effects of modern industrialization, according to these activists for the reduction of inequalities.

Jean Philippe Delsol (2020, p. 169) recognizes the false assumption of inequality theorists and argues that they should focus on poverty, not inequality.

Milton Friedman challenges the generous arguments offered by socialists, the latter advocating redistribution of wealth through social benefits as well as politically unrestricted migration. These two public policies cannot be linked, as Friedman pointed out in a public lecture in the seventies (apud. Guerreiro *et al.*, 2020, p. 1): „Because it is one thing to have free immigration to jobs, it is another thing to have free immigration to welfare, and you cannot have both. If you have a welfare state, if you have a state in which every resident is promised a certain minimum level of income or a minimum level of subsistence

regardless of whether he works or not, produces it or not, well then it really is an impossible thing.“

4.4. Konrad Lorenz. Mankind as a victim of its own success

Austrian biologist Konrad Lorenz (2001, p. 9) was awarded the Nobel Prize for his research contributions to the field of physiology. He campaigns for a return to wilderness, for a rediscovery of primitive man – we notice, in this case, how wide-ranging the myth of the noble savage can be (see Hazard, 2007, pp. 20-22) – all for the sake of healing human genes, degraded by the blameworthy welfare and decadent culture of contemporary societies. Given that the human species no longer faces any natural adversary, having mastered the planet by itself, it has lost any possibility of any natural obstacle playing the necessary role of regulating its own evolution (Lorenz, 2001, p. 37), being compelled to rely only on intraspecific natural selection.

The biologist does not shy away from comparing modern man to a domesticated animal whose instincts have atrophied and whose chances of survival in the wilds are close to zero (Lorenz, 2001, p. 48). Man was phylogenetically programmed to respond to the stimuli of the pleasure-displeasure mechanism, but contemporary Western civilization has distorted this process for the sake of technological progress and well-being. Humans have become accustomed to getting everything with little effort and have lost their instinctual desire to acquire pleasure. Simultaneously, humankind has acquired a growing intolerance of unpleasantness because it no longer faces life-and-death situations, as it has done for tens and hundreds of thousands of years of evolution (Lorenz, 2001, p. 51). Meanwhile, men and women have been infantilized by the fixation with staying youthful forever, a phenomenon known as neoteny, according to Lorenz (2001, p. 77); this has resulted in other hazardous behaviors including the craving for rapid pleasure and a lack of empathy for other people.

Reproduction today is an immature process that does not involve even the slightest process of mate selection, since humans are eager to mate with the very first person they come across of the opposite gender (Lorenz, 2001, p. 52). It is also claimed that maternal instincts are vanishing, as evidenced by the loss of the capacity to nurse offspring in domesticated aquarium fish species (Lorenz, 2001, pp. 73–74).

Excessive human reproduction leads to overpopulation and overcrowding of the earth, which threatens to strangle mankind. Konrad Lorenz (2001, pp. 19-20) bemoans this so-called fact, but emphasizes that prior to the destruction of humanity, overpopulation would first lead to a loss of humanity and aggressive behavior (Lorenz 2001, p. 22).

Lorenz did no more than handle interpretations of animal behavior and apply them to the human population, by a rudimentary generalization. As a

result of his simple and intuitive ideas, panic theories have flourished in the modern world, serving the interests of scientists who threaten us with apocalypses.

5. Discussion. Julian Simon versus Thomas Malthus

The American economist made a name for himself in the 1970s and 1980s with sharp demographic analyses on natural resources and energy, population dynamics and migration (see Ahlburg, 1998). Relying on a large body of statistical data, Simon called into question the conventional theories that population growth is undermining human welfare, the planet's resources, and the planet itself.

The model proposed by Simon (1996, p. 282) centers on the individual, who is endowed with intelligence and the ability to innovate, to seek wise solutions to everyday problems: „Human ingenuity will find a way“. Ingenuity can also be found in the animal kingdom, but human beings can pass on what they have learned in life, resulting in what we call human knowledge. Therefore, population growth equates to more brains, and more brains holds the power to produce more knowledge and accelerate the cognitive processes so necessary for economic growth, i.e., the innovative processes (Simon, 1996, p. 494): „The most important benefit of population size and growth is the increase it brings to the stock of useful knowledge. Minds matter economically as much as, or more than, hands or mouths.“

Innovation is spurred not only by more minds capable of inventing or discovering new technologies, but also by the challenges posed by the need to feed more mouths. This will increase the demand for the goods and services needed to sustain the lives of additional people, a situation that will raise their price and increase the return on investment, a fact that will attract more capital to the market, and that capital will help stimulate the discovery of new innovative solutions, making those goods or services more affordable (Simon, 1996, p. 406, p. 382): „[...] without unsolved problems there will be no solutions.“

A larger population also entails a greater need for manufactured goods, which makes production processes more efficient by constantly enhancing the skills of workers, the ordinary ones, not the great innovators, through the technique known in the Anglo-Saxon world as *learning by doing* (Simon, 1996, p. 395).

Julian Simon criticizes the neo-Malthusian belief that diminishing returns and the dilution of existing physical capital, followed by population growth, will lead to less productive individuals and poorer societies. But population growth also translates into more consumers, which corresponds to an expanding global market, so production processes should become more efficient (Simon, 1996, p. 478) „through the creation of knowledge and through economies of

larger scale.“ The dynamics of the Simon model calls into question the static econometric models of Keynesian or neoclassical theories, such as the economic growth theory pioneered by Solow (1956).

Considering the argument of theorists and activists who support the idea of overpopulation of the Earth, Simon tells us that the little ones can also be seen in terms of their economic significance. Thus, a child is not only an economic burden for the family, which comes with spiritual rewards, but also an economic asset that must be invested in at the beginning – food, nourishment, education – but which will begin to yield a return when he will join the labor market (Simon, 1996, p. 4): „ A baby is a durable good in which someone must invest heavily long before the grown adult begins to provide returns on the investment.“ We also find out that increasing the number of family members invariably stimulates the willingness of fathers and mothers to work more, as parents want to ensure the welfare of their children, which has beneficial macroeconomic consequences (Simon, 1996, p. 396, pp. 399-400).

As a result of increasing population density in certain geographic areas, large infrastructure projects can be implemented more cost-effectively due to the large number of potential beneficiaries. In addition to improving transport, new railways, roads, bridges, electric, water and sewage networks will all contribute to a more cost-efficient economy and a better quality of life (Simon, 1996, pp. 115-116, 134-138, 436-437). The construction of farms, roads, or utility networks also requires land-use works such as the draining of natural swamps. As it turns out, the disappearance of swamps reduces the population of anopheline mosquitoes – responsible for transmitting malaria –, and thus the number of cases of the disease, making people healthier, more efficient at work, and reducing the medical costs associated with health problems (Simon, pp. 461-463).

Julian Simon questions the idea that food and energy supplies are finite. The concept of finitism is indebted to the engineer’s mathematical method of physically measuring available quantities of natural resources. For instance, it is assumed that counting and measuring oil deposits would provide reliable data on the total amount of oil the earth contains, and therefore it would be possible to determine with certainty when this resource would be exhausted (Simon, 1996, p. 55): „The assumption of finiteness indubitably misleads many scientific forecasters because their conclusions follow inexorably from that assumption.“ The engineering method is also culpable of taking the innovation variable out of the picture (Simon, 1996, p. 46), „like making a forecast of twentieth-century copper production on the basis of eighteenth-century pick-and-shovel technology.“

Simon proposes instead to use the economic method of measuring the quantity of natural resources, a technique that would give us a much more relevant picture of their availability. Economists agree that the measure of the

scarcity of goods is given by their price, i.e., the satisfaction result of the last unit produced, or in technical language, the marginal utility of the good. In this regard, Simon uses countless data sets to observe the evolution of natural resource prices over time – preferably as long as possible – understanding that if the relative market value of a unit of that resource has increased, then the resource is scarcer and therefore possibly on the way to exhaustion, and vice versa is equally valid; Simon (1996, p. 3, p. 15) then point out that „metals, foods, and other natural resources have become more available rather than more scarce throughout the centuries.“

Marian Tupy, research fellow at the Cato Institute, updates Julian Simon’s statistical observations on main commodity and raw material prices. Tupy (2018, p. 2) reveals that, in relative terms – prices variations adjusted for inflation and correlated with population income –, food and natural resources were more affordable in 2016 than in 1960 – except gold, silver, and crude oil – despite a greatly expanding population. According to Tupy (2018, p. 7), the price for a barrel of oil is less affected by market conditions because it is controlled by the OPEC cartel of oil-exporting countries, whereas gold and silver have appreciated for the reason that they are independent currencies in their own right, and inflation as a result of government policies and the Great Recession of 2008 has made precious metals more attractive to buyers. As the author of the article summarizes (Tupy, 2018, p. 1), „Julian Simon was right“! In other words, prices play a significant role as a self-regulating mechanism of the available quantity of natural resources, because they rationalize consumption and are far more efficient than government regulations and prohibitions (Simon, 1996, p. 404).

Simon acknowledges that environmental contamination has certain harmful effects on human health, but he urges caution in taking various measures to fight pollution. Consequently, he advocates the *Bastiat-Hazlitt* maneuver, which states that new technologies and public policies should be evaluated not only based on their obvious effects, but also their hidden consequences; here is the example Simon (1996, p. 226) uses: „Automobiles not only cause air pollution and accidents and become junked cars; they also reduce the number of horse carcasses in the streets.“ Putting an unreasonable goal such as the total elimination of pollution on the table would result in very high opportunity costs that would lower living standards and affect people’s health and life expectancy Simon (1996, p. 226).

6. Conclusions

Simon’s optimistic speech (1996, p. 75) recreates Adam Smith’s universe, a world in which the entrepreneur, the worker, and the landowner work together – willingly, necessarily, each individually – and reap ever greater benefits as innovation – the fruit of the brilliant human mind – propels humanity to new

heights of well-being: „In short, humankind has evolved into creators and problem solvers.“ As long as mankind faces a challenge, such as the depletion of traditional energy supplies, it can only be a good chance for humans to develop solutions and „deal successfully with resource scarcity“ (Simon, 1996, p. 76), driven by the incentives connected with new discoveries.

Simon's (1996) focus is on understanding the demographic dynamics of the world. The American economist proposes the following universal scenario: firstly, human innovation will lead to innovative ideas that are proven to reduce the time needed to produce a unit of the same product, resulting in greater wealth in society. Rising population affluence will result in increased fertility and decreased mortality as a result of a better life, a healthier diet, and easier access to medical care. Subsequently, more minds wired for invention and the fact that economies are more efficient when they function on a wide scale, the expanding population will also lead to an increase in revenue. Finally, as we have seen in the case of the Western world, families in high-income societies will choose to have a limited number of children, causing the natural increase in the population to fall to a level close to the population reproduction rate, causing the total number of people to stagnate or fall: in the European Union today, a woman gives birth to about 1.5 children per woman (Eurostat, 2023), which is not enough to cover the minimum needed to prevent a significant decline in the population. As Simon explains (1996, p. 475), population growth may contribute to economic growth, whereas population decline implies the opposite, at best slowing economic growth.

Simon (1996, pp. 464-466) points out that it is wrong to draw simple analogies between human and animal behavior – as the biologist Konrad Lorenz (2001) does – because human social behavior makes it compatible for large numbers of individuals to live peacefully together in a limited, densely populated space.

It is wrong, according to Julian Simon (1996, p. 65), to think about natural resources in terms of assumptions such as the depletion of oil and coal, not only because other sources can be used to replace them, but also because the discussion must focus on energy resources in general, and there is no evidence that solar, wind, or nuclear energy will run out in the next seven billion years, „enough to ignore the issue of finitude.“ To draw an analogy, the notion of creative destruction as outlined by Joseph Schumpeter (2011, pp. 37-44) holds true in the case of natural resources: new inventions destroy old enterprises, yet this cannot but mean more wealth because new enterprises are more efficient.

Julian Simon (1996, p. 236) wonders whether the environmental hysteria of the 1980s and 1990s has any real basis, as human life expectancy has increased, and pollution levels have fallen in the developed world. Today, more of us are living longer than our predecessors on a cleaner, greener, bluer planet than in the industrial past. Although many experts, and policymakers assume

that there is a direct link between economic growth and increasing pollution (Simon, 1996, p. 225), „during the 1970s and 1980s, the richer countries had significantly greater decreases in carbon dioxide and sulfur dioxide than did the poorer countries.“ We can therefore safely conclude that Western technologies have greatly reduced pollution.

In the world we live in today, many European nation-states have adopted stricter laws to limit migration, ignoring European founding principles, but nevertheless frightened by the bleak prospects offered by the 2015 migrant crisis in the European Union, with more than one million refugees (see Trauner, 2016, pp. 319-320). In contrast, Julian Simon (1996, p. 490) explains that immigrants do bring innovative knowledge that increases the productivity of the society in which they settle, and that the misconception that immigrants steal jobs from natives is unfounded, as „they make as many jobs as they take“.

An essay written in the interwar period by Ludwig von Mises (1935, p. 22) predicted that the lack of freedom of movement would lead to the outbreak of World War II, since governments that did not allow free movement before to World War I were deemed uncivilized (Simon, 1998, p. 150). Moreover, there is good reason to believe that reducing political barriers to migration and increasing the volume of immigrants in a society can increase economic freedom within that community (Powell, 2017, pp. 527-529).

As a result of population growth, humanity would be able to innovate and find innumerable solutions to natural resources scarcity, concluding that freedom of movement, respect for private property, freedom of speech, and economic freedom are essential to humanity's well-being; or, as Simon (1996, pp. 494-495) put it, „for an economy to grow, individuals require a social and economic framework that provides incentives for working hard and taking risks, enabling their talents to flower, and come to fruition“.

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INTEREST IN WELLNESS & SPA AS A WAY OF SPENDING FREE TIME

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Abstract

Wellness & SPA is now experiencing one of the most interesting paths forward and this fact can be observed by a surge in the interest of Romanian consumers for this specific way of spending their time outside of work. The advantages of participating in the well-being movement have been known for over decades and the expansion of the sector has led to the emergence of new interesting discoveries. Therefore, the analysis of the direct link between the consumption of SPA services and the enhancement it brings to the quality of life is an innovative element that brings more originality and opens new possibilities for analyzing the lifestyle of the population. The main objectives of this research are the observation of the phenomenon that led to the boost of curiosity in wellness and its correlation with the need to improve the lifestyle, illustrating the respondents' preferences and outlining a profile of the typical guest for SPA visits. The results obtained through the interview technique emphasized the existence of a direct relationship between the use of wellness services during free time and the development of the living standards, as well as the boost in people's desire to embrace habits that lead to an active and harmonious life. The importance of the research consists in shaping an image on the ways in which the community can rely on lifelong prosperity from the use of SPA techniques in their free time.

Keywords: Wellness, SPA, Free time, Motivation, Quality of life

JEL Classification: Z30.

Introduction

Wellness & SPA is a field that includes two vital characteristics. Wellness is a term that represents a general state in which the mind and body are perfectly aligned, with the main purpose being relaxation and the promotion of a healthy lifestyle, while the SPA concept is closely related to the wellness area, being the physical part through which well-being can be obtained by participating in a series of activities and using some specific facilities such as swimming pools, jacuzzis, saunas or fitness rooms. (Global Wellness Institute, 2024)

Free time is a social phenomenon, represented by a period of time that does not fit into professional or domestic activities and that each person uses according to their own motivation, with the main purpose of rest. (Zarotis & Tokarski, 2020, p. 140)

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The adoption of wellness and SPA practices during free time has become an interesting choice among the population and this fact can be emphasized by the surge in the demand for body treatments, which implicitly influences the number of locations offering such services.

Excitement for relaxing in SPA centers and improving health had a boost with the emergence of the COVID-19 pandemic, which has completely transformed the way people relate to wellness or their perception of achieving effective results for health in a short period of time. In Romania, this phenomenon led to a significant increase of 25% in 2022, reaching a revenue value of 39 million euros. (Aredeleanu, 2023)

Currently, studies on the industry focus on the immediate health benefits of people practicing such activities and on their use as a way to relax and socialize during their free time. The novelty of the research is represented by the consideration of the SPA field as a way to achieve complete rest and a harmonious lifestyle, as well as observing the use of wellness services as one of the methods of spending free time with direct benefits on the physical and mental state of people, considerably remodeling life satisfaction.

The focal point of this scientific piece is the consideration of the elements that have induced the rise in curiosity for wellness as a way of spending free time, with particular importance in analyzing how the population perceives this area as a trigger for the adoption and promotion of a healthy and balanced lifestyle.

Hence, this study has as main objectives:

- observing the factors that lead people to choose SPA services
- identification of dominant services and consumer preferences
- outlining the profile of the typical SPA guest

It is of great importance to assess how the majority of people see the use of SPA services as a manner of gaining advantages for their body and mind, but also to observe the way in which these actions can have positive effects on their daily activities.

The research approach is grounded, focused on the idea of knowledge of the field, and the research method is qualitative, aiming to describe the phenomenon by documenting existing approaches in the area and carrying out an interview-type study.

The work has a fixed structure that is outlined in six parts. In addition to the abstract and introduction, the article includes the current state of knowledge where a series of opinions on the phenomenon are presented, the research methods and the results obtained through interviews, the conclusions and bibliographic references.

Approaches in the field

The range of Wellness & SPA is a vast one, with a history spanning centuries of specific activities. Visits to SPA centers have therapeutic properties on the body and mind, with immediate results such as lowering blood pressure, reducing pain, increasing energy levels, hydrating the skin, releasing serotonin or reducing stress levels. (Thipbharos & Sangpikul, 2023, p. 149)

In recent years, a multitude of studies have changed the way people relate to wellness and recent discoveries suggest new ways to use SPA services for therapeutic purposes. In this case, a newly implemented strategy is the treatment of conditions such as depression or anxiety in a holistic style, which greatly contributes to the medicinal treatment of these health problems. (Saeed, et al., 2019, p. 624)

Nowadays, most people choose wellness services during vacations as an additional method of relaxation and disconnection, but the number of people choosing to spend their free time from a normal work week in a SPA center is constantly increasing, becoming a industry trend and a method of promoting a healthy lifestyle. (Business Wire, 2021)

One of the most significant approaches in the well-being sector is represented by the examination of different elements that depict in what way the use of SPA services can have beneficial effects on the health status of individuals. This article was the foundation upon which current research is built due to its implications for how SPA and wellness can have beneficial effects on people's lifestyles when used appropriately and consistently.

In the study of the models, it can be observed that there are six areas that the wellness part continuously influences: the part related to emotions and feelings, the part related to physical well-being, the part related to convictions and beliefs, the part related to socialization, the part related to creativity and intelligence and the part related to occupations and hobbies. (Wickramarathne, et al., 2020, p. 186)

The novelty of the relationship between wellness and leisure time, as well as the interest in performing such activities as a method of relaxation and mood improvement is the reason why studies on these phenomena are currently limited. Recent work on leisure methods suggests an upward trend in interest in physical activity and sports recreation, the main reason being the population's desire for good health and a positive general state. (Mikalauskas & Kaspariene, 2016, p. 728)

Research methods and results

This scientific article adopts a qualitative research with the aim of observing the motivations of the population for choosing SPA centers as a way of spending time and recognizing the circumstances that lead to an improved level of well-being brought by the use of health club facilities. For the purpose

of the research, the interview method was chosen, which involves conducting face-to-face conversations to find out information about certain processes.

The choice of this method was based on the advantages such as the possibility of observing non-verbal behavior, the spontaneity of the technique, the flexibility and the ability to adapt the questions to the answer or develop some opinions.

Thus, the research was carried out over a period of 2 months and was assigned to a sample of 30 people aged between 25 and 40, consumers of SPA products, and the interviews were carried out in a SPA center through one-on-one discussions with guests of the complex.

The interview consisted of a series of 10 open questions aimed at establishing the reasons for choosing wellness services, identifying the needs and expectations of the population regarding the spa activities, observing the attitude towards the connection between spare time and level of welfare and establishing the profile of the SPA consumer .

Regarding the analysis of the data resulting from the interviews, the strategy of data reduction through the coding method was used. Therefore, the information obtained was divided into categories based on a similarity of the answers and transposed into a table. A quantitative analysis was added to this method by establishing the frequency of certain terms and ordering the items according to the number of responses.

The results obtained from the 30 interviews are presented in Table 1.

Table 1. Results of the interviews

Category	Code	Number of answers
Motivation	Relaxation	10
	Healthy lifestyle	7
	Back pain	5
	Socializing	3
	Attractive appearance	3
	Detoxification	1
	Anti-Aging	1
Other ways of spending free time	Going out with friends	12
	Excursions	5
	Shopping	6
	Watching movies	3
	Walks in nature	2
	Reading	1
	Rest	1
Frequency of using SPA services	Twice a month	14
	Once a month	8
	Once a week	3
	Daily	3
	Once a year	2

Preferences	Fitness room	11
	Pool & Jacuzzi	7
	Massage	6
	Classes	4
	Cosmetic treatments	2
Needs	Relaxation	10
	Better health	6
	Mindfulness	5
	Reduction of pain	4
	Socializing	4
The moment of use	Week-end	18
	During the week after work	7
	During the week before work	5
Choosing SPA over other activities	Good for the health	13
	Relaxation assured	9
	Quiet	5
	Solving physical problems	2
Perception on the quality of life	Calmer	14
	Healthier body	10
	Better nutrition	4
	Reduction of health problems	2
Demographics (job)	Corporate worker	17
	Manager	6
	Entrepreneur	5
	Doctor	2
Demographics (gender)	Female	20
	Male	10
Demographics (age)	25-30	15
	30-35	9
	40-45	3
	35-40	2
Demographics (education)	Bachelor Degree	21
	Masters Degree	7
	High-school graduate	2

Source: realized by the authors depending on the transcripts from the interviews

Therefore, it can be noticed that most of the respondents fall into the 25-30 age group, have a higher education, high hierarchical positions, practice office work and are women.

It can also be emphasized that among the respondents, the main motivation is the possibility of relaxation, followed by the desire to adopt a healthy lifestyle, which is also evident from the frequency with which they choose to spend their free time in SPA centers.

The motivation to have a healthy body and mind are some of the key components that convince people to resort to self-care services, as well as the

long-lasting value they bring to the well-being status, especially on the general state of health.

Conclusions

The connection between welfare and recreation is one of the primary theoretical approaches today and how the population relates to these two elements shapes real movements and transformations in society.

Although the benefits of SPA services on health have been known since Ancient history, the study of the link between the registration in recreational hubs during spare time and the improvement of living standards is an updated theme that does not list substantial results for the moment.

With reference to the inquiry made in the article, it can be noticed that the greater part of the subjects believe that the usage of SPA services can provide a superior level of living through better nutrition, a calmer mind and a healthier body and this fact has long-term effects on everyday activities.

Moreover, it can be observed that the interest in SPA has grown considerably and the guests of these centers choose weekly or monthly wellness services as a way of spending their free time, these being some of the activities with great potential for relaxation and disconnection.

One of the most important objectives of the study was the presentation of the phenomenon underlying the increase in interest in SPA services and the discovery of the motivation for such choices. In this sense, it can be illustrated that among the most important factors are the desire to have good health, the need to relax, the need to socialize by participating in exercise classes, as well as the aim to enhance the physical features.

Another goal was the observation of the psychology of the consumers and the correlation between their behaviour and their level of comfort. In this case it can be emphasized that the respondents of the study prefer the facilities of the fitness rooms and swimming pools due to the visible results on the physical appearance, followed by massages and mindfulness classes with benefits on the mood and mental state.

Also, the objective of profiling the SPA consumer highlighted that most guests are aged between 25-35, are businessmen or people with static jobs and office work, higher education and an interest in the increased way in which wellness services positively affect their daily lives.

By using the interview method, the sample was relatively small, which does not provide an overview of how the population sees the relationship between wellness and leisure as a way to improve the quality of life, so an extensive study on a large number of respondents could provide details on the current state of the market.

Also, a future comparative study between the interests of the population of Romania and the population of other European Union states regarding the

benefits that the practice of wellness activities in free time has on work productivity could have a high importance in terms of the possibilities of implementing such of actions by companies for an improved state of health and morale of employees.

Therefore, the article highlighted the existence of a conscious link among the SPA consumer between wellness and leisure as a way of adopting short, medium and long term overall health benefits that have a favourable influence on the value of daily life.

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ECONOMY OF EUROLAND – STRUCTURAL CHALLENGES

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Abstract

The economy of Euroland underperformed USA and China in terms of the growth pace in 2023 and 2024, and this situation is going to persist in the future, according to the forecasts of the international financial institutions. This weak growth pace of the GDP in Eurozone has been determined by structural factors, including the deterioration of international competitiveness (exacerbated by the consequences of the geo-political tensions), the lack of the implementation of the Capital Markets Union (with negative impact for the cost of financing and for the access to capital), and the discontinuity of the structural reforms. This paper presents the structural challenges for the economy of Euroland, by employing standard econometric methods and the database of Eurostat (quarterly observations). The results of the econometric estimates point to the deceleration of the annual pace of the potential output in the region in the recent years, given the severe deterioration of the fixed investments. In fact, Euroland continues to be confronted with the same long lasting challenges, competitiveness and convergence. In this context, structural reforms should be accelerated and new measures to improve the economic integration and convergence within Euroland should be implemented, in order to put the region back on track.

Keywords: Euroland economy, potential output, investments.

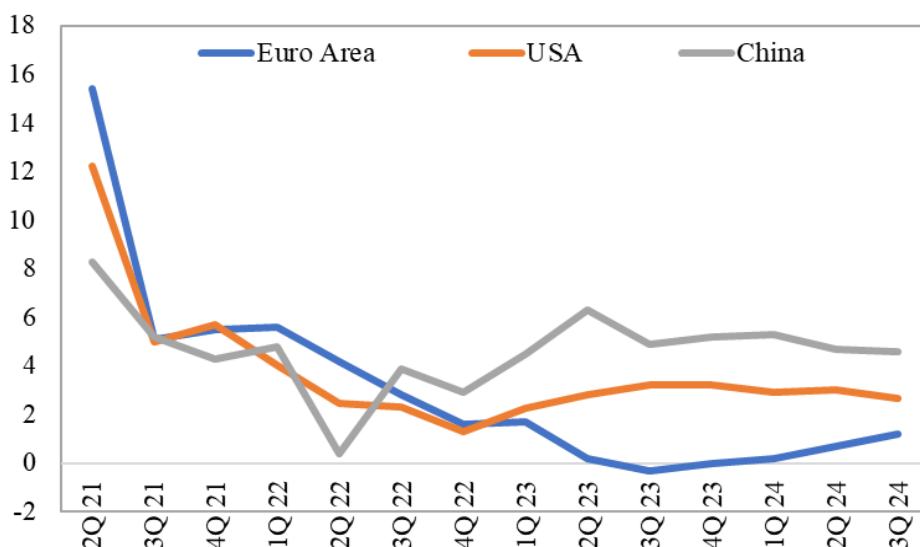
JEL Classification: C22, E22, F10

1. Introduction

Euroland (the core of the European Union, contributing by around 85% to the GDP of the region) underperformed USA and China in terms of the growth pace of economic activity in 2023 and 2024. This evolution was determined by several factors, including the consequences of the geo-political crisis in Ukraine, with negative impact from the perspective of the mid-run challenges – international competitiveness and convergence. For instance, the annual pace of the GDP of Euroland was below 1% for five quarters in a row (2Q 2023 – 2Q 2024), according to the estimates released by Eurostat (2024). In 3Q 2024 the GDP of the region accelerated to 1.2% YoY (the highest since 1Q 2023), but continued to be well below the levels in USA (2.7% YoY), and China (4.6% YoY), taking into account the estimates of Eurostat (2024), US Bureau of Economic Analysis (2024) and the National Institute of Statistics of China (2024), reflected in the following chart.

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Figure 1. The annual pace of GDP (%)



Source: Eurostat, Bureau of Economic Analysis, and National Institute of Statistics of China (2024)

The underperformance of the economy of Euroland compared to USA and China is going to persist in the short-run, according to the recent macroeconomic forecasts of the International Monetary Fund (IMF, 2024, a). The GDP of Eurozone would increase by annual paces of 0.8% in 2024 and 1.2% in 2025, while the US economy may advance by annual paces of 2.8% in 2024, and 2.2% in 2025 in the 2024 autumn macroeconomic scenario of the international financial institution based in Washington. In this scenario, the GDP of China would climb by annual paces of 4.8% in 2024 and 4.5% in 2025.

In a recent report on the competitiveness of Europe, Draghi (2024) underlined the slow dynamics of labour productivity, the weak incorporation of the new technologies, and the demographic changes as main determinants of the underperformance of the EU economy.

Furthermore, the European Central Bank (2024, a) also pointed out recently the widening productivity gap between the Euro Area and the United States, especially after the outbreak of the Great Financial Crisis, due to the low level of the capital deepening. This, in turn, can be explained by the fragmentation of the capital markets, with impact for the level of the financing cost.

On the other hand, the European Central Bank (2024, b) underlined that the weak dynamic of the GDP in Euro Area in the recent years was also determined by the consequences of the exogenous shocks (coronavirus pandemic, and the crisis in Ukraine) and by the decisions of the entity to increase the interest rates to counter the inflationary pressures.

Last, but not least, the International Monetary Fund (2024, b) pointed out the macroeconomic challenges for the Euroland, including the ageing of population, the sluggish productivity growth, the geo-political tensions, the trade disputes, and the distortive industrial policies. In this context, the experts of the international financial institution emphasised the importance of the implementation of stabilization policies and structural reforms at the EU level, including measures to improve the functioning of the Single Market.

In this paper standard econometric tools are implemented and the Eurostat database (quarterly observations) is used in order to estimate the structural components for the annual pace of the GDP, gross fixed capital formation, and exports, and for the short-run real interest rates in Euroland over the past decades.

According to the results of the econometric estimates the annual pace of the potential output in Eurozone has recently presented a downward trend, given the weak dynamic of the investments, in a context dominated by persistence of the uncertainties and the high levels of the financing costs.

The next chapter briefly presents the recent macroeconomic developments in Euroland; the methodology is described in the third chapter; the results are interpreted in the fourth chapter; the conclusions are presented in the last chapter.

2. The Recent Macroeconomic Developments in Euroland

The annual pace of the economic activity has recently improved in Euroland, an evolution determined by the dynamic of the private consumption and of the government spending. According to the estimates of Eurostat (2024), the GDP of the region grew by an annual pace in acceleration to 1.2% in 3Q 2024, the best evolution since 1Q 2023, as can be noticed in the following chart (Figure 2).

There can be noticed the advance of the private consumption (the main component of the GDP from the demand side perspective) for the fourth quarter in a row in 3Q 2024, by an accelerating annual pace to 1.1%, the highest level since 1Q 2023, an evolution supported by the positive climate on the labour market [the unemployment rate declined to a record low level in 2024, according to the database of Trading Economics (2024)].

At the same time, the public consumption increased for the 17th quarter in a row in 3Q 2024, by an annual pace in consolidation to 2.7%, the best evolution since 4Q 2021.

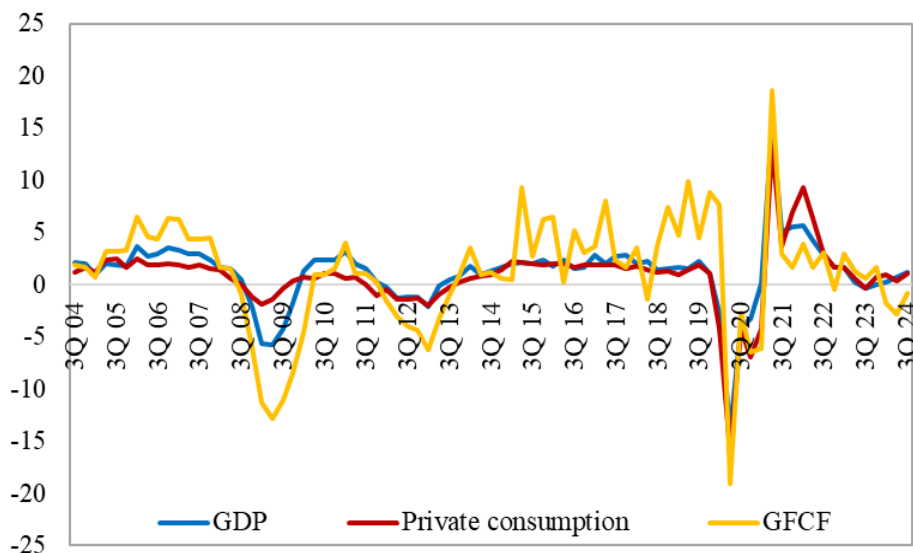
On the other hand, the gross fixed capital formation contracted for the third quarter in a row in 3Q 2024, by an annual pace of 0.8%. This evolution confirms the persistence of a tough investment climate in the region, given the challenges in terms of the international trade, the persistence of the

uncertainties (including the geo-political tensions), and the high level of the real financing costs.

As regards the net foreign demand, the volume of the total exports and the volume of the total imports of Euro Area increased by an annual pace of 2.0% in 3Q 2024.

In other words, the economic activity in the region slightly improved, but the investment climate deteriorated in 2024, as reflected in the following chart.

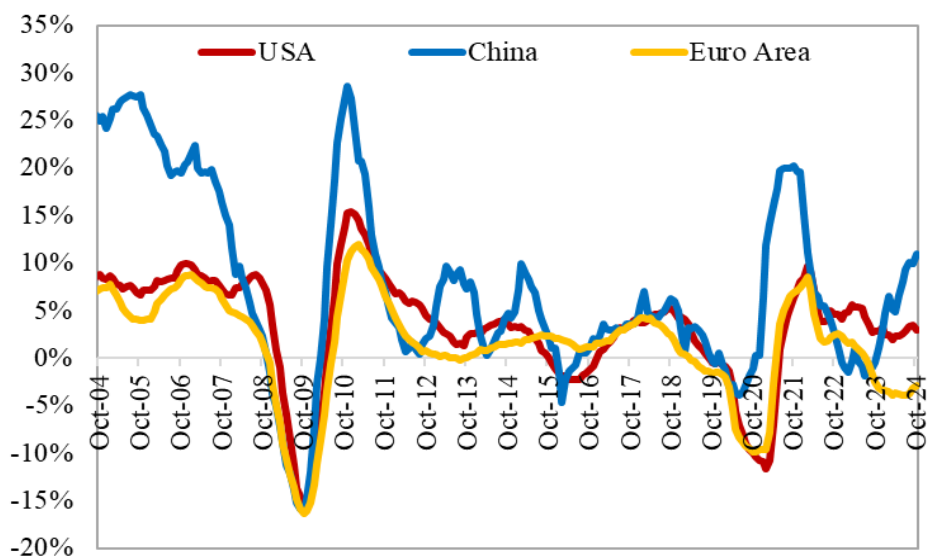
Figure 2. GDP, Private Consumption and Gross Fixed Capital Formation in Euroland (% , YoY)



Source: Eurostat (2024)

The tough investment climate in the region is determined by several factors, including the decline of the exports of goods and the upward trend for the real financing costs. For instance, according to the figures of the Netherlands Bureau for Economic Policy Analysis (CPB, 2024) the volume of the exports of goods of Euroland contracted for the 19th month in a row in October 2024, by an intensifying annual pace to 2.5%. Therefore, the volume of the exports of goods in Euro Area declined by an annual pace of 2.5% during January-October 2024, an evolution in divergence compared to the increase of this indicator in USA (by 2.9%), and China (by 10.8%), as can be noticed in the following chart.

Figure 3. The volume of the exports of goods in Euro Area, USA, and China (MA12)

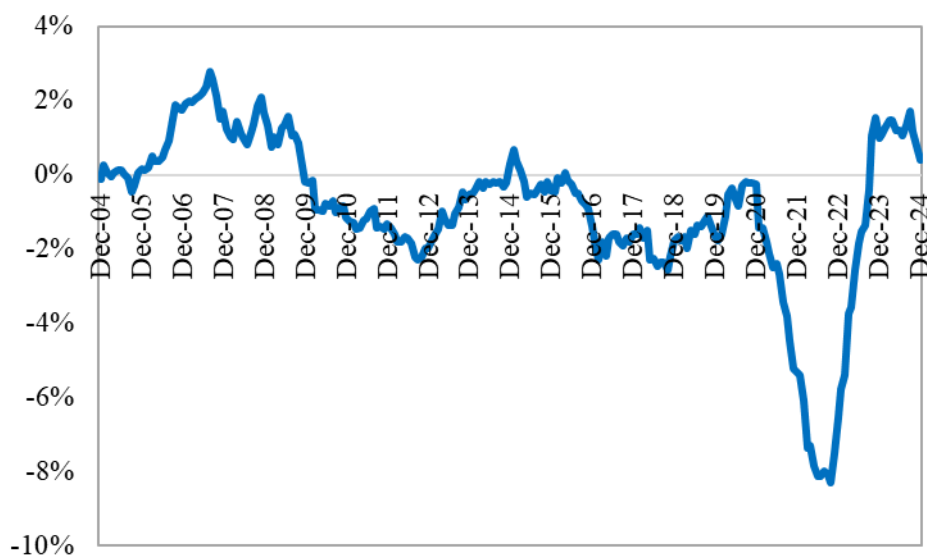


Source: Netherlands Bureau for Economic Policy Analysis (2024)

In this context, the volume of the industrial production in Euroland decreased for the 18th month in a row in October, by an annual pace of 1.5%. During the period January – October 2024 the volume of the industrial production in Euro Zone contracted by an annual pace of 3.1%, a weaker performance compared to the consolidation of the industrial production in USA and the increase of this indicator by an annual pace of 5.6% in China.

Furthermore, the real cost of financing in the short-run presented an upward trend in 2024 (as reflected by the following chart), as the annual pace of the consumer prices in Euroland continued to decelerate towards the lowest level since the pandemic year 2020, while the European Central Bank started to cut the interest rates only in the Summer (month of June). For instance, in September 2024 the EURIBOR for the 3 months maturity adjusted by the annual pace of the consumer prices hit the highest level since the end of 2008, according to our estimates presented in the Figure 4.

Figure 4. EURIBOR 3M adjusted by inflation



Source: estimates using the statistics of Eurostat (2024)

3. Methodology

This paper applied standard econometric tools (the Hodric-Prescott filter) and used the database of Eurostat (quarterly observations) in order to estimate the trend component for the annual pace of GDP, gross fixed capital formation, exports, and for the short-run real interest rates in the Eurozone, during the period 1Q2001 – 3Q 2024.

Furthermore, we assessed the impact of the real interest rates and of the dynamic of the exports on the evolution of the gross fixed capital formation in the region, in terms of the trend components, by applying a standard OLS regression and using the results for the structural components of these variables from the implementation of the Hodrick-Prescott filter.

This filter is widely used in the macroeconomic analysis in order to distinguish between the cyclical and the structural components of the macroeconomic indicators, being expressed as in the following relation:

$$\mathbf{Min} \sum_{t=1}^T (\ln Y_t - \ln Y_t^*)^2 + \lambda \sum_{t=2}^{T-1} ((\ln Y_{t+1}^* - \ln Y_t^*) - (\ln Y_t^* - \ln Y_{t-1}^*))^2 \quad (1)$$

In this relation the Y_t , Y_t^* and λ represent the macroeconomic indicator, its trend (structural component), and the smoothness parameter. We point out that the higher the value of this smoothness parameter, the larger the gap between the macroeconomic variable and its trend (structural) component.

This method has been used over the past decades, being simple and transparent, but we underline the main shortcomings, as mentioned by the literature, as for instance Bouthevillan et al. (2001) – the leakage and the compression effects – these are dependent on the value of the parameter λ .

Given the fact that we worked with quarterly observations in this paper, we used a smoothness parameter of 1 600, as recommended by Hodrick-Prescott (1997).

We applied this filter for the annual pace of the macroeconomic indicators (GDP, gross fixed capital formation, exports, and short-run real interest rates) in Euroland during the period 1Q2001 – 3Q 2024, in order to estimate the trend (structural) component for each of them.

In this paper we worked with Eurostat database (Eurostat, 2024), using the estimates for the annual pace of the volume of GDP, gross fixed capital formation, and exports of Eurozone in the interval 1Q 2001 – 3Q 2024.

As regards the short-run real interest rate in Euroland, we estimated it considering the EURIBOR for the 3M maturity and the annual pace of the consumer prices in the region, monthly observations from Eurostat (2024), for the period January 2001 – September 2024. The results of the monthly estimates for the short-run real interest rate were aggregated into quarterly observations.

Afterwards, the results of the implementation of the Hodrick-Prescott filter were used in order to estimate the following OLS regression:

$$\mathbf{GFCFTR} = \mathbf{C(1)+C(2)*EXPORTSTR+C(3)*REALINTRATETR} \quad (2)$$

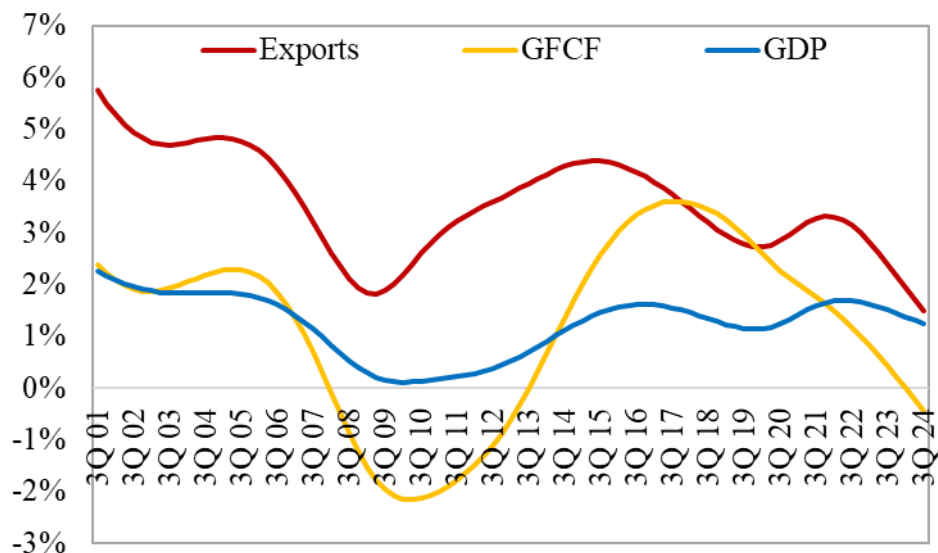
In this relation GFCFTR and EXPORTSTR represent the trend components for the annual pace of the gross fixed capital formation and of the exports, while REALINTRATETR is the structural component for the short-run real interest rate in Euroland.

We worked with the econometric software E-Views.

4. The Interpretation of the Results

The results of this econometric analysis point out the downward trend for the annual potential growth pace of GDP in the Euroland over the past years, to only 1.2% in 3Q 2024. This is the lowest level since the 3Q of the pandemic year 2020, as can be noticed in the following chart.

Figure 5. Annual pace of the trend component for GDP, gross fixed capital formation, and exports in Euroland



Source: econometric using the statistics of Eurostat (2024)

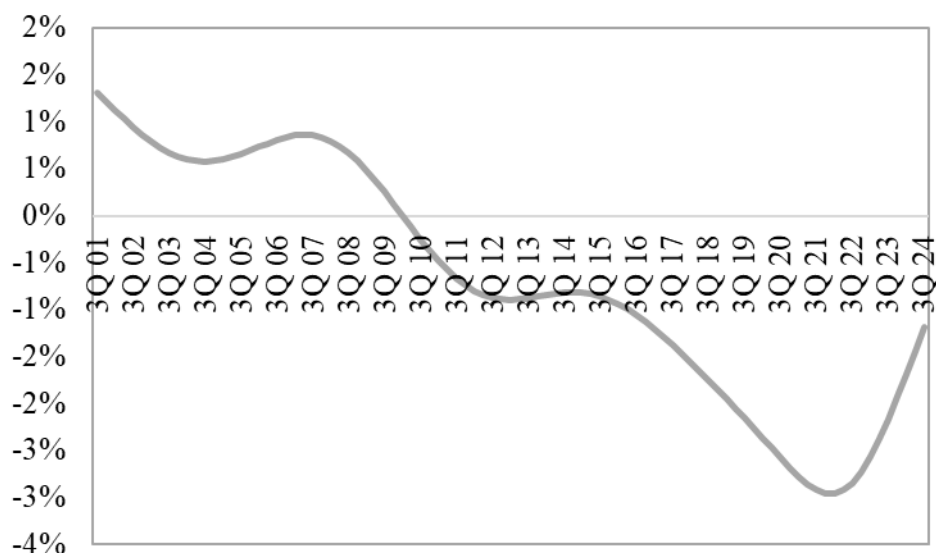
The trend component for the annual pace of the GDP deteriorated from 1.7% in 4Q 2021 (the period before the outbreak of the crisis in Ukraine) to 1.2% in 3Q 2024, an evolution reflecting the severe impact of the geo-political tensions and of their consequences.

We point out the severe deterioration for the trend component of the annual pace of the gross fixed capital formation in Euroland in the recent years (from 1.6% in 4Q 2021 to almost 0% in 3Q 2024, a record low level), as can be noticed in the Figure 5. This evolution was determined by the consequences of the exogenous shocks (coronavirus pandemic, and intensification of the geo-political tensions since the outbreak of the crisis in Ukraine), with negative impact for the international competitiveness of the economy of Euroland and for the short-run real interest rates.

For instance, our econometric estimates express the deceleration of the trend component for the annual pace of the volume of exports in Euroland from 3.3% in 4Q 2021 to 1.5% in 3Q 2024, a record low level, as can be noticed in Figure 5.

On the other hand, the trend component of the short-run real interest rate in Euroland presented an upward trend in the recent quarters, from -3.0% in 4Q 2021 to -1.2% in 3Q 2024, the highest level since 4Q 2016, as reflected in Figure 6.

Figure 6. Trend component for the short-run real interest rate in Euroland



Source: econometric using the statistics of Eurostat (2024)

In fact, the results of our econometric estimates (represented in Tabel 1 below) express the proportional relation between the dynamic of the gross fixed capital formation and the evolution of the exports, in terms of the trend components for the annual pace of their volumes. From the OLS regression resulted a coefficient of 1.288. In other words, an increase of the volume of exports in Euroland by 1% contributed to the advance of the volume of the fixed investments by 1.288% for the period 1Q 2001 – 3Q 2024. Therefore, it can be underlined the strong dependence of the fixed investments in the Euroland on the dynamic of the exports.

On the other hand, there is a negative relation between the evolution of the gross fixed capital formation and the short-run real interest rate in Euroland, the estimated coefficient being -0.683 during the interval 1Q 2021 – 3Q 2024. In other words, the increase of the short-run real interest rate by 1% contributed to the deterioration of the annual pace of the gross fixed capital formation by 0.683% in Euroland during this period.

Table 1. Results of the OLS regression, as expressed
in relation (2), chapter 3

Dependent Variable: GFCFTR

Method: Least Squares

Date: 01/29/25 Time: 10:35

Sample(adjusted): 2001:1 2024:3

Included observations: 95 after adjusting endpoints

GFCFTR = C(1)+C(2)*EXPORTSTR+C(3)*REALINTRATETR

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-3.892205	0.556935	-6.988618	0.0000
C(2)	1.287891	0.139617	9.224430	0.0000
C(3)	-0.683348	0.112216	-6.089601	0.0000
R-squared	0.491930	Mean dependent var		1.198973
Adjusted R-squared	0.480885	S.D. dependent var		1.734923
S.E. of regression	1.250006	Akaike info criterion		3.315243
Sum squared resid	143.7514	Schwarz criterion		3.395892
Log likelihood	-154.4741	Durbin-Watson stat		0.022464

Source: econometric estimates, using Eurostat database (2024)

5. Conclusions

According to the macroeconomic estimates in this paper, the annual pace of the potential growth pace in Euroland has deteriorated significantly since the outbreak of the crisis in Ukraine. This evolution was determined by the consequences of the geo-political tensions for the dynamic of the gross fixed capital formation (fixed investments) in the region.

On the one hand, the intensification of the geo-political tensions, since the beginning of 2022, determined the geo-fragmentation in the world economy, with negative consequences for the evolution of the international trade. Therefore, the exports of the Euroland were severely hit, as the performance of this economy used to be importantly dependent on the foreign demand in the past.

On the other hand, the international sanctions implemented following the outbreak of the crisis in Ukraine, and the dependence of Euroland on the imports of energy from Russia in the past determined the severe increase of the prices of energy in the region, which had spill-over impact for the overall consumer prices. In this context, the European Central Bank had to significantly increase the interest rates in order to counter the inflationary pressures and to contribute to the convergence of the annual pace of the consumer prices towards the inflation target (of 2%). In the past quarters, the inflationary pressures diminished significantly in the region, while the interest rates declined to a lower extent, pushing the real interest rates to positive territory since October 2023.

The main conclusion of this paper is that in order to improve to potential growth pace of the economic activity in Euroland there are needed measures for the sustainable relaunch of the fixed investments.

From the short-run perspective, there can be mentioned the measures in terms of fiscal policy (as the manoeuvre room is gradually increasing in the region, after the recent consolidation process) and monetary policy (the European Central Bank has space to continue the interest rate cut cycle in 2025).

However, the most important, and also the most difficult to implement measures are the structural reforms, which should be accelerated in the region in the coming quarters. In this context, we mention the implementation of the Capital Markets Union (that would contribute to the decline of the cost of the financing in the region), the increase of the flexibility degree on the labour market, and the acceleration of the incorporation of the technological progress (including increasing the allocation for research, development, and innovation).

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