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CUPRINS

Secțiunea I

PREOCUPĂRI DE CUNOAȘTERE ȘI SECURIZARE ALE PROCESULUI DEZVOLTĂRII ECONOMIEI ROMÂNEȘTI

Mihai Ilie, <i>Câteva aspect privind securitatea financiară a țării</i>	11
Pistol Luminița, Ungureanu Gabriela, Ungureanu Adrian, Vârgă Anca, <i>Managementul proiectelor – calea spre performanță în cadrul corporațiilor ...</i>	23
Lianu Costin, Gudei Simona Corina, <i>Designul – element-cheie al industriilor creative în România și rolul său în exportul românesc</i>	27
Dragomir Robert Gabriel, <i>Aspecte psihologice întâlnite la începutul activității antreprenoriale</i>	35
Bratu (Simionescu) Mihaela, <i>Câteva strategii empirice de îmbunătățire a acurateții previziunii ratei șomajului în România</i>	41

Secțiunea II

DOMENII ȘI FORME DE MANIFESTARE ALE CRIZEI ECONOMICE MONDIALE ÎN ROMÂNIA

Balu Mariana Elena, <i>O analiză a ciclicității crizei în economia pieții</i>	57
Băluță Aurelian Virgil, Jicman Liviu, <i>Dezechilibre pe piața educației și a inovării – factori potențatori ai crizei din România. O abordare liberală</i>	67

Secțiunea III

DIN ISTORIA ȘI PRACTICA DEZVOLTĂRII ECONOMICO-SOCIALE ROMÂNEȘTI

Ghiorghiță Eugen, <i>Cauze istorice ale industrializării românești</i>	79
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CONTENTS

Section I

KNOWLEDGE AND SECURITY CONCERNS OF THE ROMANIAN ECONOMY DEVELOPMENT PROCESS

Mihai Ilie, <i>Some aspects concerning the financial security of the country</i>	11
Pistol Luminița, Ungureanu Gabriela, Ungureanu Adrian, Vârgă Anca, <i>Project management – the way to performance among corporations</i>	23
Lianu Costin, Gudei Simona Corina, <i>Design – key element of creative industries in Romania and its role in Romanian export</i>	27
Dragomir Robert Gabriel, <i>Psychological aspects met in the start-up stage of entrepreneurial activity</i>	35
Bratu (Simionescu) Mihaela, <i>Some strategies empirical for improving the accuracy of unemployment rate forecasts in România</i>	41

Section II

FIELDS AND MANIFESTATION FORMS OF THE WORLD ECONOMIC CRISIS IN ROMANIA

Balu Mariana Elena, <i>An analysis of the crises' cyclicity in the market economy</i>	57
Băluță Aurelian Virgil, Jicman Liviu, <i>Unbalances on the education and innovation market – enhancement factor of the crisis in Romania. A liberal approach</i> ...	67

Section III

FROM THE HISTORY AND PRACTICE OF THE ROMANIAN SOCIO- ECONOMIC DEVELOPMENT

Ghiorghiță Eugen, <i>Historical causes of Romanian socialism institutionalization</i> ...	79
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TABLE DES MATIÈRES

Section I

PRÉOCCUPATIONS DES CONNAISSANCES ET SÉCURITÉ DU PROCESSUS DE DÉVELOPPEMENT DE L'ÉCONOMIE ROUMAINE

Mihai Ilie, <i>Certains aspects de la sécurité financière du pays</i>	11
Pistol Luminița, Ungureanu Gabriela, Ungureanu Adrian, Vârgă Anca, <i>Gestion des projets – le chemin de la performance de l'entreprise</i>	23
Lianu Costin, Gudei Simona Corina, <i>Design – la clef des industries créatives en Roumanie et son rôle dans les exportations roumaines</i>	27
Dragomir Robert Gabriel, <i>Les problèmes psychologiques rencontrés au début de l'activité entrepreneuriale</i>	35
Bratu (Simionescu) Mihaela, <i>Quelques stratégies empiriques visant à améliorer l'exactitude des prévisions du taux de chômage</i>	41

Section II

DOMAINES ET FORMES DE MANIFESTATION DE LA CRISE FINANCIÈRE MONDIALE EN ROUMANIE

Balu Mariana Elena, <i>Une analyse de la crise cyclique dans l'économie de marché</i>	57
Băluță Aurelian Virgil, Jicman Liviu, <i>Les déséquilibres du marché de l'éducation et de l'innovation – facteur activateur de la crise en Roumanie. Une approche libérale</i>	67

Section III

L'HISTOIRE ET LA PRATIQUE DU DÉVELOPPEMENT ÉCONOMIQUE ET SOCIAL ROUMAIN

Ghiorghiță Eugen, <i>Causes historiques de l'industrialisation roumaine</i>	79
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Section I

**KNOWLEDGE AND SECURITY CONCERNS OF THE
ROMANIAN ECONOMY DEVELOPMENT PROCESS**

SOME ASPECTS CONCERNING THE FINANCIAL SECURITY OF THE COUNTRY

Prof. Ph.D. **Ilie MIHAI**

Faculty of Finances and Banks, Bucharest

Spiru Haret University

E-mail: mihai.ghilie@yahoo.com

Abstract

Given the increasingly globalized economy, in which the interdependencies of economic, financial, social, cultural, environmental, as well as other issues are widening, the maintenance and defence of attributes pertaining to sovereignty, independence and national security of each country, become a real and worthy challenge.

In other words, the question arises, how could a country, especially one such as Romania, located at the intersection of particularly important geostrategic interests, manager, to converse national attributes of sovereignty, independence and security, while also fulfilling its obligations deriving from international treaties and bodies at which it is a party.

Keywords: *financial security, GDP evolution, credit institutions, tax agreement, the EU, bank balance, leadership, public debt, budget revenues, privatisation*

JEL Classification: G₀₁, G₁₅

Introduction

In this paper, the focus will be on issues concerning financial security, as important in current conditions as energy security or military power. Remembering only that Greece was (is) a tight rope, without any cartridge being fired in the area. The same goes with Ireland, Spain, maybe Italy, etc.

The main issues addressed concern:

- the economic, social and political environment;
- status of debt of the country;
- excessive privatization of the banking system;
- Romania among the countries of the world;
- management by the foreigners of credit institutions;
- EU fiscal agreement;
- conclusion.

The economic, social and political environment

As it is known, since 1 January 2004 Romania is a member of NATO, as well as through signing the Romanian-U.S. agreement on the location of the missile

shield and starting with 1 January 2007 was admitted as a full member of the European Union. In this context, Romania has brought active contributions to both political-economic and military organizations through participation with troops and military equipment in the various theatres of operations coordinated by NATO, as well as through signing the Romanian-U.S. agreement on the location of the missile shield (*The agreement concluded between Romania and the U.S. on the location of the ballistic missile defence system of the United States in Romania, the Air Base at Deveselu, Olt County, entered into force on December 23, 2011*).

As a member of the European Union, Romania has made and continues to make efforts for the European integration, according to the requirements set out in the Accession Treaty (*Treaty of Accession of Bulgaria and Romania to the European Union, approved by the Parliament on 13 April 2005 with 497 votes for, 93 against and 71 abstentions, signed on 25 April 2005 at Abbey Neumunster – Luxembourg, entered into force on January 1, 2007 after being ratified by the national parliaments of EU member states*).

From apolitical perspective, Romania is a parliamentary republic with a very active “player” president. The political life is dominated by the ruling coalition, consisting of the Liberal Social Union (USL) consisting of Social Democratic Party (PSD), National Liberal Party (PNL) and the Conservative Party (PC), on the one hand, and the Liberal Democratic Party (LDP), the Democratic Union of Hungarians in Romania (UDMR) and the National Union for the Progress of Romania (UNPR), in opposition, on the other hand.

2012 is an election year for Romania, during which local elections (in June 10, 2012) and parliamentary elections (November 2012) will be organized.

Economically, after joining the EU, Romania’s economy recorded the next evolution of gross domestic product (GDP):

Year	2007	2008	2009	2010	2011	2012
%	+6.4	+7.1	-7.1	-1.2	+2.5	+1.6
						(estimated)

Source: data processed by the National Institute for Statistics.

Main contribution of economic sectors to the GDP report at the end of 2010 as follows: industry: 29.7%; trade: 23.8%; financial activities, real estate, renting, business services: 15.7%; education services, health, social work, public order, etc.: 14.1%, construction: 10%; agriculture: 6.7% (Source: EUROSTAT – GDP by Sectors).

The high share in GDP of the industrial sector (29.7%) doesn’t suggests, unfortunately, a super-industrialized country (in Germany, the most industrialized country in Europe, the share of industry in GDP is about 20% and in the U.S., even lower), but rather an underdevelopment of other sectors, especially agriculture, which, by scattered farms of subsistence nature, barely feeds 20 million people, although it has the potential (concerning the arable land) to feed over 80 million persons.

Overall, Romania's GDP structure highlights the characteristics of a second world country. Since April 2012, the Romanian economy technically entered recession, due to the decreases registered in two consecutive quarters (fourth quarter of 2011 and first quarter of 2012).

Status of the country's debt

Total external debt recorded at the end of 2011, has the following structure compared with 2010:

	billion EUR		% of total	
	2010	2011	2010	2011
Total external debt , of which:	90,0	98,6	100.0	100.0
- short term debt	18,0	23,0	20.0	23.3
- medium and long term debt	72,0	75,6	80.0	76.7

Source: NBR.

Government debt, according to EU methodology (government debt), amounted at the end of 2011 to approx. EUR 44.7 billion or 34.3% of the GDP, with the next evolution and structure by maturity:

	2008		2011	
	billion EUR	% of GBP	billion EUR	% of GBP
Total government debt according to EU methodology , of which:	29,8	13.4	44,7	34.3
- short term government debt	5,6	2.5	10,3	7.9
- medium and long-term government debt	24,2	10.9	34,4	26.4

Source: Ministry of Finance.

Structure by components of internal and external government debt is as follows:

	2008		2011	
	billion EUR	% of total 2008	billion EUR	% of total 2011
Government debt according to EU methodology (I+II) , of which:	29,8	100	44,7	100
I. internal government debt	12,0	40	22,7	50.8
II external government debt	17,8	60	22	49.2

Source: Ministry of Finance.

As a result, the total external debt of our country, recorded at the end of, 2011 of 98.6 billion EUR, has the following structure by sectors:

	Dec. 2011
Total external debt (a+b), of which:	98,6 billion EUR
a) external government debt	22,0 billion EUR
b) private external debt (b ₁ +b ₂)	76,6 billion EUR
Of these ones:	
b ₁) banks	24,9 billion EUR
b ₂) real sector (production, services)	51,7 billion EUR

Although it is below the maximum stipulated by international treaties (*The Treaty of Maastricht on 7 February 1992 which establishes the principles and foundation for the Economic and Monetary Union – EMU*), total government debt of the Romanian state has grown substantially in the last three years (50% in 2011 compared to 2008), what is really worrying is the fact that the structure component of short-term (up to 12 months) almost doubled in the last three years (up to 84% in 2011 compared to 2008), putting the country in a position to take new loans to repay old ones.

On January 31, 2012 (*Romania returned to the U.S. market after 16 years of absence*), Romania has borrowed \$ 1.5 billion from the U.S. market for a term of 10 years at a yield of 6.875% / year with semi-annual interest payment coupons, being the largest amount of dollars on the market recently subscribed for a country in Central and South-Eastern Europe, but also the most expensive.

“If you do not do it based on a strategy, but you do it occasionally, if you don’t do it in a credible manner but you do it when the knife is at the bone, the feeling it gives is one of a murderous market, they smell blood and it kills you in terms of cost” (*M. Isarescu – speech at the conference "Romania’s choice" European assessment and implications for Romania Bucharest, February 8, 2012. NBR*).

Large loans taken by Romania in recent years and their high cost have made the debt service interest payments on government debt represent approx. 1.8% of the GDP

Excessive privatization of the banking system

After 1989, the state’s chase after money and the application, sometimes misjudged, of the requirements of the market economy has led to privatization to foreigners, capital sale of not only entities which the state could no longer sustain, but also some of the most valuable and profitable companies, real “pearls of the crown” (Petrom, BCR, Banca Agricola, Automobile Dacia SIDEX, Tractorul Brasov and so on).

In this context, excessive privatization of state banks lacked real support that Romanian banks could have brought to the implementation of economic and financial policies, as well as to the social reform, through the major revenue they could have brought to the budget in the form of taxes and dividends.

In Romania, the structure of number of corporate and capital banks over the last 20 years has evolved as follows:

	1990	2000	2010*)
TOTAL banking system (a+b), of which	12	41	42
a) Romanian banks of which:	7	33	33
- state owned	5	4	2
- privately owned, of which:	2	29	31
-domestic majority	2	8	5
-foreign majority	-	21	26
b) foreign bank policies	5	8	9

Source: NBR, ARB.

*) The two banks are state-owned, CEC Bank and Eximbank, and the 5 majority domestic private banks are TRANSYLVANIA, Carpathian CREDITCOOP, LIBRA BANK (owned by shareholders directly Romanians who in turn are owned by the NCH BROADHURST – US) and BCR Housing Bank (owned by BCR SA, which in turn is controlled by Erste Bank Group – Austria).

Not only the number of Romanian state-owned banks and domestic private capital was reduced, but also the market share held by them in the entire banking system is low, i.e. 7.4% returns to the two state-owned banks and 7.5% to the five local private banks (which actually is not mostly local) and the remaining 85% of businesses in the Romanian banking market is controlled by foreign banks, which puts Romania in a real difficulty of insuring the financing and crediting of the national economy, especially in times of crisis, when international banks serve primarily the interests of their countries of origin.

At the end of 2011 compared with the previous year, aggregate indicators on credit institutions are shown as follows:

	Dec. 2010	Dec. 2011
Number of credit institutions of which:	42	41
- foreign bank branches	9	8
Total net assets (RON billion)	341,9	354,0
Private capital institution assets (%)	92.6	91.8
Foreign capital institution assets (%)	85.1	83.1
Solvency ratio (%)	15.02	14.50
Leverage (Tier I /Total average assets (%))	8.11	7.90
Overdue and doubtful... (% in total loans)	2.23	2.40
Overdue and doubtful... (% total assets)	1.47	1.60
Return on assets (net profit/assets %)	-0.16	-0.10
Return on equity (net profit/equity %)	-1.73	-1.40
Rate of return based activities (operating income /operating expenses %)	154.2	146.60
Loans to customers/deposits from customers (%)	113.46	116.70

Credit risk (doubtful and loss loans/total loans %)	20.82	23.30
NPL ratio (loans loss and those with legal procedure/ Total Loans %)	11.85	14.10

Source: NBR.

Net banking assets totalled at the end of 2011, 354.0 billion RON (81.9 EUR billion), or 63.2% of GDP, reflects the further high growth potential of banking activities in Romania.

The analysis of aggregate indicators on credit institutions highlights the fact that although both in 2010 and in 2011 the rentability rate of the basic activity (calculated as the ratio between the operating income and the operating expenses) recorded very high values of 154.2 % and 146.6%, 2-3 times the cost in the production of goods and services, return on equity (ROE), the return on assets (ROA) have recorded in the two years analyzed negative levels, both as a result of provisioning costs needed to cover bad loans, but also due to transfer of profits to their home countries on account of transfer costs (*Interest costs on financing lines granted by mother banks costs by outsourcing some services and activities of group companies, costs of salaries and the bonuses and the other categories of expatriate management etc.*).

This has led, over the whole banking system, to the income provided by the Romanian state budget being quite low compared to the potential as follows:

Tax from commercial banks:	2010	2011	2012
-million RON	276,8	330,2	332,7*)
-mil. EUR at the reference rate of each year	64,6	76,4	77,0

*) According to law no. 293/2011 on the State Budget for 2012, published in the Official Gazette no. 914/22 dec. 2011, Part I

Before privatization, the Romanian Commercial Bank (BCR) contributed only to the state budget with taxes and dividends in an amount greater than the entire commercial banking system today.

Romania among the countries of the world

Globalization of the world economy, manifested primarily on national financial systems, making the “intensity, expansion, velocity and impact of global financial flows and networks to be unprecedented... National financial markets are increasingly rooted in the international financial system, the backbone of economic development of all nations” (Ioan T. Bari, 2010).

Foreign loans, European funds and generally foreign financial assistance proved by their effects on the economic growth to be rather contradictory, because only a small fraction of these flows had contributed effectively to developing countries that have borrowed (the beneficiaries), thus appearing an opposite effect of net capital out flows to developed countries.

Analysis of the Romanian financial market compared to different countries in the world, based on specific indicators is as follows:

a) compared to neighbouring countries:

Country	Credits in GBP	Loans, banking deposits	Public debt in GBP
• Romania	21.2	113.3	35.3
• Hungary	21.0	123.6	85.3
• Poland	24.6	106.3	52.4
• Bulgaria	36.0	102.6	16.6

Source: Union Bank of Switzerland (UBS).

b) compared to some developed countries:

Country	Credits in GBP	Loans, banking deposits	Public debt in GBP
• Romania	21.2	113.3	35.3
• France	19.4	163.6	84.2
• Great Britain	35.2	150.5	76.7
• Holland	15.7	158.7	66.0

Source: Union Bank of Switzerland (UBS).

c) compared with European countries badly affected by the crisis:

Country	Credits in GBP	Loans/banking deposits	Public debt in GBP
• Romania	21.2	113.3	35.3
• Greece	55.7	117.7	130.2
• Italy	25.3	165.2	118.4
• Ireland	56.1	187.3	99.4
• Spain	66.0	223.0	63.3

Source: Union Bank of Switzerland (UBS).

Published analyzes of Union Bank of Switzerland (UBS) based on end-2010 data show that, from the point of view of financial intermediation, as measured by the share of bank credit to GDP, Romania, with 21.2%, occupies a back place, behind it being only Hungary (21.0%), France (19.4%) and the Netherlands (15.7%).

The ratio of loans/bank deposits reveals that Romania (113.3%) has funded loans, especially on account of deposits of the local market, and only 13.3% of loans were funded by resources made available by foreign banks (mother banks), while in other developed countries, the loans were funded at a rate much higher on

account of external resources: France – 63.6%, United Kingdom – 50.5%, Netherlands – 58.7%, Italy – 65.2%, Spain – 123.0%, Ireland – 87.3%, etc.

Management by foreign credit institutions

With the privatization of banks, their management was placed in the hands of foreigners, so far, except for the two state-owned banks (CEC Bank and Eximbank), virtually all credit institutions operating in Romania are run by foreigners. This combines with the broad involvement of the Romanian authorities, who have created some of the most permissive legislative framework for access of foreigners to the management of credit institutions. Thus, art. 25 of the Banking Law no. 58/1998 (*Banking Law no. 58/1998, published in Official Gazette no. 121/23.03.1998, Part I, amended and republished in Official Gazette no. 78/24.01.2005, Part I*) stated: “bank leaders must be resident in Romania, exercise exclusively the position in which he has been invested, and at least one of them being a Romanian citizen. They must be licensed, have worked for at least 5 years in banking and not to have caused, through their activity, bankruptcy of companies. Persons designated in the quality of bank leaders must be approved by the central bank before being on duty”.

Although the Romanian legislation was rather permissive compared with countries in the area (*See Polish model, according to which credit institutions management councils must be formed of at least half of Polish citizens*) it was even more relaxed by the new banking law (Emergency Ordinance no. 99/6 dec. 2006 on credit institutions and capital adequacy, published in the Official Gazette no. 1027/27 dec. 2006, Part I, approved by Law no. 227/2007, published in Official Gazette no. 480/18 July 2007, Part I, which was repealed Law no. 58/1998):

(1) The operative business of a credit institution must be provided by at least two people;

(2) The persons referred to in paragraph (1) must have the reputation and experience to exercise the responsibilities assigned, respectively Ordinance no. 99/2006, at art. 13.

Being privatized at the expense of foreign capital, it has imposed point of view, motivated by the fact that share holders are foreigners who have invested capital and have every right to appoint the management of the credit institution.

To demonstrate how unjustified is such a viewpoint, we analyze the balance sheet structure of credit institutions, which looks like this:

BALANCE			
100,0%	ASSETS	100%	LIABILITIES
8,0%	Fixed assets	14,5%	Capital
79,0%	Loans	70,0%	Deposits on local market
11,0%	Minimum reserves	13,3%	External financing
2,0%	Cash	2,2%	Others liabilities

Therefore, the total resources of banks, only $\frac{1}{4}$ are resources invested by foreign capital (in the form of equity and external financing lines), is stored and collected from the local market availability.

It is hard to believe that, for the proper administration of these deposits on the Romanian market, the foreigners would be more interested than Romanians. The management provided by foreigners is also questionable, because they assume management of the bank on a short term contract (2-4 years usually) by making a number of indicators (targets).

Driven by the lure of huge salary bonuses, foreign managers find solutions fulfilling formal indicators (targets) that the contract have mandated, sacrificing long-term interests of the bank. To illustrate this in terms of some indicators which are necessarily part of the set of 8 to 10 target indicators stipulated in the warrant. These indicators are: return on assets (ROA), return on equity (ROE), profit per employee, etc.

Although these indicators normally should increase by increasing profits, they can grow easily in other ways, such as sale and lease of their own tangible assets, reducing the number of employees, shareholdings in other (non-) banking institutions, outsourcing of activities and services, etc.

Fiscal agreement with the EU

Romania agreed in December 2011 with the EU fiscal agreement, designed as a new fiscal pact and a strengthened coordination of economic policies on the one hand, and development of instruments for stabilizing and responding to short term challenges on the other hand.

The main provisions of the tax agreement are:

- General government budgets shall be balanced or in surplus, the rule being that the annual structural deficit does not exceed 0.5% of the nominal GDP.
- Introduction in national constitutions or in equivalent acts of this provisions accompanied by triggering a mechanism for automatic correction of any deviations from the set level.
- Projected national budgets will be presented first to the European Commission, which will review and will be entitled to request their modification if applicable.
- Maintaining public debt of each member state to 60% of the GDP.
- Member States facing budget deficits above 3% and the public debt of 60% of the national GDP will be required to adopt automatic correction mechanisms.
- Starting with the summer of 2012, the European Stability Mechanism (ESM) will become operational and will take over the current European Financial Stability Facility (EFSF), will have funds in the amount of 500 billion and will discuss and coordinate all economic policies of the euro area countries.

The introduction of these provisions in national legislation of the highest level (constitution) will be verified by the European Court of Justice. Violation of

the treaty automatically leads to a fine of 1% of the GDP, which in the case of Romania, taking into account the current level of GDP, would mean approx. EUR 1.3 billion.

Tax agreement was approved by EU leaders on Dec. 9, 2011 in Brussels, being agreed initially by 17 members of the euro area and vehemently rejected by Britain, and other countries such as Poland, Finland, Hungary, and Czech Republic. After heated debate, the Agreement was signed on 02.03.2012 by the 25 EU countries except Britain and the Czech Republic, who abstained, considering the proposals to be like a “straitjacket.”

Although not a member of the euro area, through signing the EU fiscal agreement, Romania gives a great deal of its national attributes of fiscal and budgetary policy, these remaining to be established in Brussels.

Conclusions

As a result of measures taken internally, coupled with the current financial and economic crisis, Romania is rather in a state of financial insecurity, caused by difficulties in obtaining loans, and when it does, the costs being very high, by the lack of appetite of credit institutions to finance the real economy in general and some industries in particular (see agriculture), by stopping financial flows from parent banks to domestic market, the difficulty of attracting European funds and of insuring financial resources for funding.

Approaching term for repayment of the loan from the IMF, World Bank and European Commission (*See Ilie Mihai, Romania's loan agreement with the IMF, WB and Economist no. 2869 (3895)/12 March 2009; Although the loan was hired mainly to ensure the stability of the exchange rate of the national currency against the major currencies (EUR and USD), in fact a great deal of money has been used to cover wage bill and pension payments in the public sector and the exchange rate of the leu depreciated against the EUR constant: 3.9853 RON/EUR for December 31, 2008; 4.2282 RON/ EUR for December 31, 2009, 4.2848 USD/EUR to December 31, 2010 , 4.3197 RON/EUR 31 dec. 2011; 4.3780 RON/EUR to March 20, 2012*) amounting to almost 20 billion EUR to which we add the fact that national economy entered a new recession, and the fact that 2012 is an election year, with consequences of rigor (*Coalition government in March 2012 has already taken policy decision to increase salaries in the public sector by 10-16%, although the approved budget for 2012 is not provided financial resources to cover this increase*), makes the future from the financial perspective, not too bright.

Signing the Fiscal agreement with the EU suites, Romania, perhaps too early, considered that the prospect of the euro area remains distant, in a true “straitjacket” that will affect more attributes of independence, sovereignty and financial security.

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PROJECT MANAGEMENT – THE WAY TO PERFORMANCE AMONG CORPORATIONS

Prof. Ph.D. **Luminița PISTOL***

E-mail: lpistol.mk@spiruharet.ro

Associate prof. Ph.D. **Gabriela UNGUREANU***

E-mail: gabi_ungureanu1976@yahoo.com

Lecturer Ph.D. candidate **Adrian UNGUREANU***

E-mail: aungureanu75@yahoo.com

Assist. lecturer Ph.D. candidate **Anca VÂRGĂ***

* Faculty of Marketing and International Affaires

Spiru Haret University

Abstract

Project management has developed from a simple management philosophy restricted to a few functional areas into a business process that include various areas from global market. Nowadays, most of the corporations are using project management systems to achieve performance on the global market, and they realize that project management and productivity are related.

Keywords: *project management, corporations, performance, competition, globalizations*

JEL Classification: F₂₃

Introduction

Project management is a specialized branch of management that appeared in 1950 with the aim coordination and control of complex modern economy. The emergence and development are related mainly to the initiation and development of space programs of NASA, the competition among nations for supremacy in the economic and military pressure customers who wanted their projects to be completed as soon as possible so that they can begin to recover as quickly as possible the investment, the trend of globalization of the world economy. Although it appeared in the U.S., project management was adopted quickly in Europe, the first attempts to standardize practices in the area dating from 1979 and belonging to an institute in the UK – The Chartered Institute of Building. It has now become, along with other organizations, such as Project Management Institute (The Project Management Institute), a body that certifies both project managers and field training programs worldwide. Also, in Europe, procedures for quality in project management, procedures included in the standards of the International Organization for Standardization (ISO) have developed. Project management includes logical and progressive decision processes, an adequate organization, financial and commercial management, special attention to the documents and

administrative tasks and apply traditional management methods and techniques adapted accordingly.

Literature review

Many new developments and interests in project management are being driven by quickly changing global competition markets, technology and education systems (J.R. Meredith). Project management has evolved into a business process rather than a simply process (H. Kerzner, 2011), more companies are now regarding project management as being mandatory for their survival on the global market, that is putting more and more pressure on price, response time and product or service innovation. The primary efforts of project management are to communicate and coordinate activities between the organization lines (H. Kerzner, 2011). The phenomenon of globalization and transnationalization of corporate activities have left their mark also over project management. Due to market dynamics, fierce competition, the need for innovation and development, project management is now found in many areas: information systems, health care, consulting, education, pharmaceutical, banks, government agencies, etc.

Content

Projects within a corporation must compete to achieve their mission, which is why, projects must be consistent with the organization's strategy, because projects are by definition means to achieve tactical strategies and their components. To easily identify adequate projects for an organization, and in order for these projects to be implemented, we should first remove from the very beginning unsuitable projects which entail a big budget and a risk measure, also organizational orientation is recommended towards those projects that bring immediate benefits and do not require high costs of implementing. Competition from large organizations engaged in similar projects on a small market and in developing countries should be avoided.

Taking into account the high degree of economic processes development, social and economic globalization, the dynamics of business processes, corporations feel the need to take a different approach, more consistent in the application of project management systems. Extension of project management as a means to support global competition, organizational environment to meet ever more demanding, has led to a new type of organization, the so-called body-centred projects. Such an organization has as main characteristic that its performance is measured in terms of ability to adapt to different projects and many projects developed also not according to the organizational strength or number of employees. Professional skills of employees and adaptability to new projects are of great value, much appreciated by corporations, but what matters more is the speed at which employees join the skills and knowledge to find a solution to a common problem, and the speed with which, once the problem solved (once completed project), other employees form teams to solve a new problem.

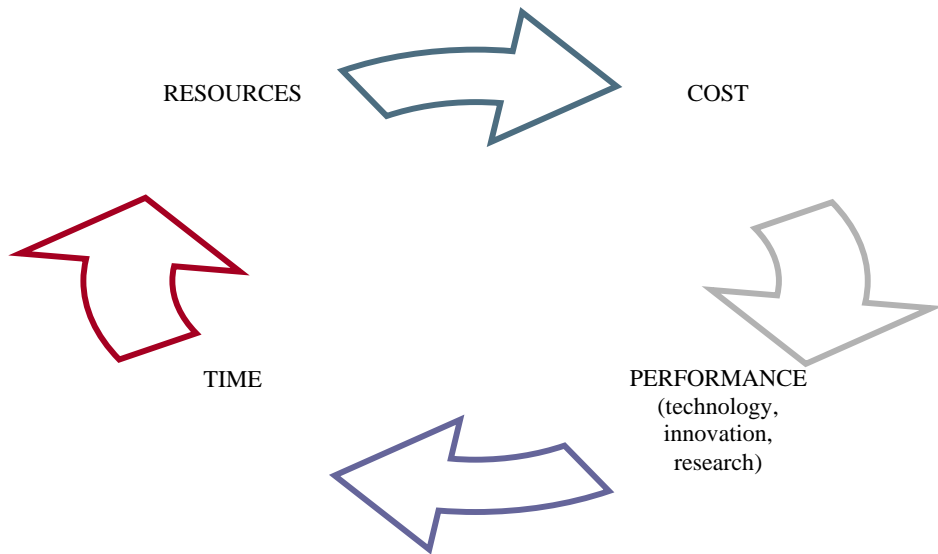


Fig. 1. *Good customer relations*

Trigger factors which cause the initiation of projects in a corporation are new opportunities for business process changes, regulatory changes, the emergence of new technologies. The problem arises when, at the same time, several projects and project ideas struggle for resource allocation and financing; in this situation companies need to prioritize their needs, manage multiple resources for such requests and should continue their work keeping the same operational parameters. Departments of programs or projects are common in large corporations. The department is responsible for overseeing projects and coordination of all projects assigned to each project throughout the company. This department establishes a simple and well-defined framework that proposes a phased approach to all projects and monitor and report progress of project portfolio management of the company. Also, this department has the role of advising project managers.

For a project to be built in compliance with quality parameters, the budget and the deadline for implementation set requires a professional management of operations taking place in the economic process. Technical complexity, the importance of work on time, resources and cost constraints require substantial planning, scheduling and strict control of all activities. Business processes usually do not have a self-regulating mechanism, and therefore require well coordinated interventions of experts for activities to be carried out as planned. Running processes can be profoundly affected by events that are sometimes difficult or impossible to predict. In such changing conditions, costs and durations of activities change constantly and may deteriorate suddenly. Exercise effective management is not only desirable, but a necessity for obtaining a satisfactory final result. Whatever the nature of the economic process to achieve the proposed objectives, the safest way to achieve the objectives of all participants is to apply a project management system.

Unfortunately, date, standards and methodologies offered by various prestigious organizations in the area cannot be to apply on a large scale. It remains rather limited applicability to a specific area or sector. Hence the many specific approaches to different areas or sectors.

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DESIGN – KEY ELEMENT OF CREATIVE INDUSTRY IN ROMANIA AND THE ROLE IN ROMANIAN EXPORT

Lecturer Ph.D., **Costin LIANU***

E-mail: clianu@hotmail.com

Lecturer, **Simona Corina GUDEI***

E-mail: corinagudei@yahoo.com

Faculty of Marketing and International Affairs, Bucharest
Spiru Haret University

Abstract

Creative industries are now considered a solution for sustainable development. EU 2020 strategy is considering these industries crucial for the future industrial policy of EU.

In recent years, while some European countries or even regions and cities, such as the UK, Scandinavian countries cities like Barcelona, Tallinn, Copenhagen or Amsterdam to name a few, have been good at tapping into the extraordinary potential of the cultural and creative sectors as a way to promote socioeconomic development and progressively developed ad hoc strategies, others are only just starting.

Present papers is aiming at evaluating potential of these industries in Romania, with focus on design, and their possible place in the future export development of the country. Where strategies have emerged, they tend to focus on the strengthening of these sectors and not yet on stimulating partnerships and spill-overs with other sectors.

Keywords: *creative industries, creative sectors, design, National Export Strategy (NES)*

JEL Classification: F₆₃

The sphere of creative industries

The concept of creative industries is relatively new and is defining those industrial sectors where entrepreneurial competitiveness is based upon individual creativeness, especially cultural, artistically or scientifically. The concept is defined differently by various authors or institutions. Some are defining ‘creative industries’ while others ‘cultural industries’, while EU documents are speaking about “creative and cultural industries” which comprises 11 sectors as follows:

- programs and games;
- advertising and publicity;
- design;
- music;
- books;
- art;

- film;
- scene;
- radio-TV;
- architecture;
- media.

On the other hand, in EU countries, definitions may differ. For example the UK Government *Department for Culture, Media and Sport* (DCMS) gives the following definition which describes the creative industries as: “*those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.*” (DCMS 2001, p. 04)

The current DCMS definition recognises twelve *creative sectors*, down from fourteen in their 2001 *document*. They are:

- advertising;
- architecture;
- arts and antique markets crafts;
- design;
- designer fashion;
- film, video and photography;
- software, computer games and electronic publishing;
- music and the visual and performing arts;
- publishing;
- television;
- radio (DCMS 2006).

Other authors like John Howkins would add toys and games, and also include the much broader area of research and development in science and technology (Howkins, 2001, pp. 88-117). It has also been argued that gastronomy should be included.

On the other hand there are authors like Hesmondhalgh which reduces the list to what he terms ‘the core cultural industries’ of advertising and marketing, broadcasting, film, internet and music industries, print and electronic publishing, and video and computer games. His definition only includes those industries that create ‘texts’ or ‘cultural artefacts’ and which engage in some form of industrial reproduction (Hesmondhalgh, 2002, pp. 12-14).

The question about the boundaries between creative industries and the similar term of cultural industries remains open. Cultural industries may be defined as interrelated industries of the creative ones, industries which are focused mainly on delivery of human and artistic values in the first place, in spite of the fact that they may become commercial goods or services. For example, artist may not be interested in the market value of its production while the designer does.

Creativity spill over’s

Being at the crossroads between arts, business and technology, cultural and creative sectors are in a strategic position to trigger spill-over’s in other industries.

For example ITC content in diverse applications is based on creativity. Culture and creativity have also direct impacts on sectors such as tourism and are integrated at all stages of the value chain of other sectors such as fashion and high-end industries, where their importance is increasing.

More generally, these sectors have an impact on innovation in other industries. As highlighted in the Innovation Union, innovation is increasingly driven by non-technological factors such as creativity, design and new organizational processes or business models. It heavily relies on creative ecosystems in which the quality and diversity of partnerships across different sectors and types of actors is decisive.

The most obvious example is the wider use of design in manufacturing industries, adding value to products, services, processes and market structures. Firms spending twice the average amount on creative inputs are 25% more likely to introduce product innovations.

This catalytic potential can also constitute a fundamental resource for social innovation and responses to major societal challenges, such as climate change, sustainable development, demographic changes or cultural diversity. For example, in partnership with the education and vocational training sector, the cultural and creative sectors can contribute to developing the blend of skills around creativity and entrepreneurship, critical thinking, risk taking and engagement, which is needed for EU's competitiveness in the knowledge society.

An important vector in global competition

Europe's international partners already invest a lot in the cultural and creative sectors. The US has been investing in them for decades both as strategic economic sectors and a tool to affirm their presence globally. Others, such as China, South Korea or India, are also making massive investments to boost their economic potential and 'soft power'.

To do so, they enter into a global competition for creative talents. For example, in China, public investment in culture has grown by 23% annually since 2007, and plans are to raise the sectors' share of GDP from 2.5% to 5-6% by 2015.

While European fashion and high-end industries contribute increasingly to EU exports and the promotion of European excellence in the world, the potential of other sectors, such as cinema or music, is still not strategically exploited abroad. For instance 62% of all goods manufactured by European high-end brands are sold outside Europe and the value of their exports is estimated at € 260 billion (e.g. approximately 10% of all European exports).

Creative entrepreneurs and workers

Some institutions like DCMS UK classify enterprises and occupations as creative according to what the enterprise primarily produces, and what the worker primarily does. Thus, a company which produces recorded songs would be classified as belonging to the music industrial sector, and persons playing musical instruments would be classified as a musician.

The primary purpose of this is to quantify – for example it can be used to count the number of firms, and the number of workers, creatively employed in any given location, and hence to identify places with particularly high concentrations of creative activities.

It leads to some complications, which are not immediately obvious. For example, a security guard working for a music company would be classified as a creative employee, although not as creatively occupied.

The total number of creative employees is then calculated as the sum of:

- all workers employed in creative industries, whether or not creatively occupied (e.g. all musicians, security services, accountants, managers, etc. working for a record company);
- all workers that are creatively occupied, and are not employed in creative industries (for example, a piano teacher in a school). This includes people whose second job is creative, for example somebody who does weekend part time jobs like writes books, or produces artwork in their spare time etc.

According to Caves (2000), creative industries are characterized by seven economic properties:

1. *Nobody knows principle*: Demand uncertainty exists because the consumers' reaction to a product are neither known beforehand, nor easily understood afterward.

2. *Art for art's sake*: Workers care about originality, technical professional skill, harmony, etc. of creative goods and are willing to settle for lower wages than offered by 'humdrum' jobs.

3. *Motley crew principle*: For relatively complex creative products (e.g., films), the production requires diversely skilled inputs. Each skilled input must be present and perform at some minimum level to produce a valuable outcome.

4. *Infinite variety*: Products are differentiated by quality and uniqueness; each product is a distinct combination of inputs leading to infinite variety options (e.g., works of creative writing, whether poetry, novel, screenplays or otherwise).

5. *A list/B list*: Skills are vertically differentiated. Artists are ranked on their skills, originality, and proficiency in creative processes and/or products. Small differences in skills and talent may yield huge differences in (financial) success.

6. *Time flies*: When coordinating complex projects with diversely skilled inputs, time is of the essence.

7. *Ars longa*: Some creative products have durability aspects that invoke copyright protection, allowing a creator or performer to collect rents.

High growth sectors in EU

The economic performance of the cultural and creative sectors is recognized: in the EU they account for 3.3% of GDP and employ 6.7 million people (3 % of total employment). Figures are also important if one considers the fashion and high-end industries, which rely on a strong cultural and creative input. They account for 3% of the EU GDP each and employ respectively and 1 million people, with employment in the high-end industries expected to reach 2 million by 2025.

Between 2008 and 2011, employment in the cultural and creative sectors proved more resilient than in the EU economy as a whole with growth rates varying however between subsectors. This tendency is all the more interesting because some sectors have a higher percentage of youth employment than the rest of the economy.

Covering in particular architecture, archives and libraries, artistic crafts, audio-visual (including film, television, video games and multimedia), cultural heritage, design (including fashion design), festivals, music, performing and visual arts, publishing and radio.

Other sources have estimated it higher at 4.5% of GDP and 8.5 million people employed (TERA Consultants, 2010). Including design, manufacturing of fashion materials and goods, and their distribution

In some cases, at local and regional level, strategic investments in these sectors have delivered spectacular results. In particular, festivals and European Capitals of Culture produce important economic benefits, with sometimes more than ten times leverage for each euro invested.

Romanian capabilities and challenges

Despite the great diversity of national and regional contexts, the development of successful strategies that can turn the challenges above into new growth and jobs opportunities in the EU usually follows the same pattern. Developing sector strategy at national level for creative industries is an important tool in order to enhance this sector in the broader European context.

Romania has an important potential to develop and export products or services of the creative industries. One of the strengths of the Romanian economy is its individuals creativity and the National Export Strategy (NES) is considering development of human resources as the critical success factor.

As a general rule successful strategies for the cultural and creative sectors build on a full mapping and mobilization of the cultural and creative resources of a given territory. NES tried to describe the sector potential and resources identifying following subsectors as important from the point of view of capacity to export:

- design;
- audio-visual, film, music;
- media.

Looking at the map of Romania, most of these activities are concentrated in metropolitan area of the big cities such as Bucharest, Cluj, Timisoara, Iasi etc. However, a full mapping of the creative industry competencies by regions was not made yet. Strategy should be completed by more research to ensure effectiveness, efficiency and sustainability.

NES is looking at this sector in a holistic manner, calling for partnerships between various departments (culture, industry, economy, education, tourism, territorial planning etc.) and involving all relevant public and private stakeholders to increase ownership.

Therefore, it is attaching a great importance to the synergies that can be created between activities on the value chain of interrelated sectors la fashion, tourism, culture, handy craft, food, furniture and others in order to be more efficient and sustainable.

For each relevant issue – from skills development to access to finance or access to world markets etc. – these strategies identify what can be tackled by generic policies and instruments and what requires a tailored approach.

Design

Design is considered in National Export Strategy (NES) as priority sector for several reasons such as:

- Incorporation of this activity into the value chain of main export sectors (furniture, textile, industrial equipments, IT&C, services, glassware, consumer goods etc) is not only increasing the national value chain but is also an important to export value- added innovative products

- It has an important contribution in packaging and branding, activities important in international marketing

- Design is an exportable service by itself with an important contribution to diversification of export of services in the context of globalization in which export of services is increasing

- Working force in Romania is creative and attracted by this type of activities while universities in big cities are developing curricula in order to take advantage of the human resources.

- Association of designers are well organized at national and regional levels and able to promote and support companies and individuals in this sector.

Design activities may be divided into six successive stages, such as:

- elaboration of hypothesis about a new product;
- investigating utility functions;
- creation of the visual concepts;
- evaluation of options and alternative concepts;
- fine tuning and implementation;
- impact measurement.

According to the designers associations Romanian design is targeted to become a symbol of excellence in exports and an essential way to ensure a sustainable growth. In order to reach this vision the following steps has been identified:

- Creation of networking platforms enabling designers to liase with producers, investors and entrepreneurs in order to introduce into the market innovative, designed driven products or services.

- Creating partnerships between universities and sector business associations or companies in industries like means of transports (vehicles, air or naval transport, textile, shoes, furniture, ceramics, glassware, handy craft etc.).

- Awareness campaigns, event to inform about importance of design and promote design culture in the whole society.
- Seminars with training modules for companies in which should be underlined the profitability of design for the recovery and the development of companies and methods to evaluate design readiness of the companies utilizing design scales measuring stages from non design status to prototype, process and innovation.
- Creation of a Design Council able to coordinate all efforts to promote the new design culture and to fulfil the vision
- Institutionalization of a national or regional event like “National Design Contest” under the form of competition among designers with awards

Conclusion

Romania has an untapped potential to develop creative industries, design bean on sector which may become front runner of the new competitive identity of the country. While business associations of designers are becoming more aware of their important role in promoting the sector, essential steps should be done, in partnership with the public sector, in order to develop capacities and capabilities. Creation of a Design Council may be essential in order to transform design into the main gateway to innovation and competitiveness.

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PSYCHOLOGICAL ASPECTS MET IN THE START-UP STAGE OF ENTREPRENEURIAL ACTIVITY

Lecturer Ph.D. **Robert Gabriel DRAGOMIR**
Faculty of Accounting and Finance, Campulung
Spiru Haret University
E-mail: robert73d@yahoo.com

Abstract

The present paper proposes to focus on the important psychological characteristics implied in the activity of start-up a business. At the beginning, we present the definition and the specific points of an entrepreneur and also of an entrepreneurial activity. Then we restrict the sphere to the psychological aspects connected to the start-up business activity: the courage, the self trust, the independence attitude, the intuition, the professional training and the environment knowledge, the ability of adapting, the great availability for work, the perseverance, good organiser, a good communicator, respect for the collaborators, positive thinking, socially active. In the end, we jump at the conclusions and talked about the importance and the roles of the projects financed by the European Union, the Romanian Government, the Social European Fund and Structural Instruments.

Keywords: *psychological characteristics, start-up, business, entrepreneur, entrepreneurial activity*

JEL Classification: M₁₃

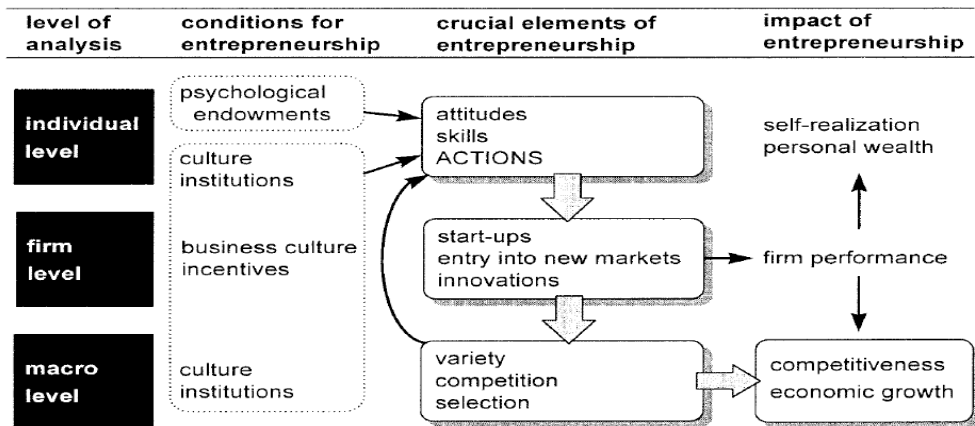
Introduction

In modern open economies economic growth is more important than it has ever been. The reason is that globalization and the ICT-revolution imply a need for structural change, requiring a substantial reallocation of resources. When it comes to how the mechanisms operate, little is known, either on how entrepreneurship can best be promoted or on how entrepreneurship influences economic performance [1].

The entrepreneur can be any person who possesses a great capacity of identifying and valuing a component in a field of activity; he is also willing to take risks in implementing it [2].

The component can be the realization of a product, a service, a market segment, a way of marketing, an advanced technology. By applying it into practice, the entrepreneur is the one who does not necessarily create a new product, but he produces the existing issues at other price or other quality.

From the beginning, such a person has to calculate not only the positive aspects connected to the status, financial position, but he also has to dimension in a proper way all the risks the activity imposes.



Source: Wennekers, Sander; Thurik, Roy (1999), *Linking Entrepreneurship and Economic Growth*, “Small Business Economics”, volume 13, issue 1, Netherlands: Kluwer Academic Publishers, p. 51.

Fig. 1. Framework linking between entrepreneurship to economic growth

The new position of the start-up entrepreneur requires changes connected to his life style, the way of spending the resources, the degree of implication in the new activity, the time for the new activity.

Within the present context of the economic and financial crisis, the starting-up of any business requires from the part of the entrepreneur a concrete and correct knowledge of the reality, great knowledge and professional experience, modalities of valorising the fiscal and law opportunities and so on [3].

The success of a good entrepreneur consists of the training and the efficient way of spending the resources at his disposal. At the same time, one has to take into consideration the sustainable character any present business has to bare.

After analysing the way of approaching the business, the most successful businesses are based on entrepreneurial values. The small and medium businesses generally started from an innovative idea of a practical resolving of an identified problem, by using one of the following methods: a lack in the market, the replacing of a product or a service by using a more competitive technology, the satisfaction of a continuous need of the consumers.

The starting-up of a business deals at first with the dimensioning and the allocation of all the needed resources.

From the whole number of the persons who want to start a business, the ones who succeed are characterised by initiative spirit, need of fulfilment, trust in himself, independence, perseverance, accepting the challenge and the risks.

The number of the people who are eager to start a business is in an indirect proportion with the uncertainty degree it implies.

Psychological aspects of a success entrepreneur

Specialists utter that the beginning of a business has to be done methodologically, by observing the recommended steps and stages. Thus, the European policy connected with the human resources offers the new accepted states into the community space specific programs and instruments as concern the diminishing of the differences between the way of implementing the business and using the human resource for these activities.

From the psychological values one meets within a business activity, we mention the following ones:

—The courage is the main characteristics, without it we cannot discuss about an authentic entrepreneur. The courage is clearly seen at the persons who have the power to follow their idea, to fight for it, to pass over obstacles and emotional barriers, to change their style of life and even to migrate toward a new activity.

—The self-confidence is another basic element, which has to be trained; it is the engine that generates energies for exceeding the hard and difficult moments, new situations. Trust is the one that certifies each and every forward step to be done; it is the one that gives power for passing on.

—The independent attitude is that quality which animates the new entrepreneur. It makes the difference not among the best specialists, but also among the ones who hope and the ones who succeed to become their own masters. This characteristic can be latent for a while, but once it is activated, it will shape the future profile of the entrepreneur.

—The intuition. The mechanism of valuing an idea to create a product or do a service is based on this factor. The intuition is the one that discovers business opportunities, lightens faces, which appear as being common. It is considered to be a native quality, it cannot be educable and it has to be rightly dimensioned.

—The professional training also plays a determinant role in succeeding in a business plan. The complexity of this factor helps the decision-maker decide the manner he has to do the first steps in his business. Depending on the professionalism degree, the new idea is approached, the satisfaction is faster reached.

—The environment knowledge requires, in its turn, profound knowledge in strategic management, human resources, marketing, financial-accounting management.

—The ability of adapting is the result of the thinking capacity of being flexible; that is the entrepreneur has to be the same almost all the time. This characteristic is to be seen when someone loses his nerves when he meets important persons or even when an uncomfortable decision has to be taken and sustained. The adaptability refers to the capacity of rapid and proper reactions to the business environment dynamics. When it is joined to intuition, the way to development and success will be more facile. The know-how is a great challenge every moment; many of the companies which did not pay attention to the performing technological alternatives oriented towards losses and even bankruptcy. The main directing lines of action will be tracked by the strategic management, by using the adapting capacity to all rigours and exigencies of the present market [4].

—The great availability for work. Work is the factor that leads toward progress and development. A success entrepreneur will work as it is necessary in order to gain his goals. Within the point of starting-up a business, the winner will be that one who will realize that the greater the dedication, the more rapid the business mechanisms will be synchronized and the greater the satisfaction, too. The great volume of work has to be seen on an ascendant trajectory of the company; it also represents the motivational support of all implied parts. The personal example stands for a good motivational factor for the colleagues and employees.

—The perseverance. The way an entrepreneur follows is the result of a preliminary simulation of the way of the business function and expansion. Once implied into the real life, the unedited situations will appear and the enthusiastic entrepreneur is not well out of the disturbing situations. Now it is the time for the perseverance to be present. If the objectives are forecast in a realistic way, the success and even their exceeding will be possible, but this depends on the entrepreneur capacity of insisting on and persevering. The dosing of the physical and mental energies together with a correct projection of the expected results will lead to success. If the proposed objectives are too high, there is the risk of failing and abandoning the business plan; if the objectives are too facile, the satisfaction will not reach the estimated threshold and this leads also to discontent and disinterest. The way to success is a sinuous one, but the winners will be the perseverant ones, who always evaluate the imminent risk dimension for going or not further more [5].

—Good organiser. The success of an entrepreneur depends on his vision to organize the activities that are to take place in the firm. It is absolutely necessary that the person who assumes the transposition of the business idea into practice has to know all the time the internal functioning and situation of the firm: the departments' organization, the situation of the production cycles, the stocks, the sales. A business coordinator is the principal actor that administrates all the processes of a business, through the information flux that came both from the internal and external environment. Considering that the process of coordination is a good one, the decision maker has to possess the capacity to recruit all pieces of information that came from the interesting areas, so that he is able to offer the best solution in a certain situation. A good coordinator is a delicate details observer.

—A good communicator. Within the success network of a business, the element called communication is another essential component. An entrepreneur has to communicate well with all his employees; he has to assure that the messages sent are clear, are not interpretable, are firm, have deadlines clearly specified, are oriented towards the exact person and area of interest, determine an action, have finality or generate a result.

—Respect for the collaborators. The most valuable capital of each company comes from the human resource. A good entrepreneur has to be able to orientate the human resource with a maximum of efficiency and profitability during the whole process. In this case, to realize a heterogenic team is a desirable aspect. The team has to comprise competent persons as concern the professional responsibilities, but also persons that are capable to develop the scheme of the

working relations, by linking the members of the team. The respect for every member and his work and also for the collaborators has to be observed in the external relations. There is the need to respect an ethic code which comprises the fundamental principles of the organization and the principles of the quality management also. Once these principles applied, the company will identify in a unique way to the market and will bear a good name and a serious reputation.

—Positive thinking. Any entrepreneur finds himself in the situation of failing. He is generally tempted to blame the context or the system; the one who has the capacity to recognize his own mistakes will be the one who can go further on. His positive thinking helps him change the uncomfortable state of mind. He has the power to see the things in a positive and realistic light, not to lose his courage, even if the practices of the concurrencies companies are not always fair [6].

—Socially active. Beyond the implication in the economic life, an entrepreneur has to be socially active. He will know how to thank those who helped him; he will join different social projects and will be on the side of the people who do not have luck; he will offer support and comfort to the capable young men; he will be a good example to be followed. His presence in the social life has to be a model and a catalyst for those who are not sufficiently confident in their own forces and capacities.

All the above mentioned and described capacities are to be put synthetically in the figure below (fig. 2).



Fig. 2. Structure of the psychological values of a good entrepreneur

Conclusions

Nobody is born an entrepreneur, but some of us can become one, by valuing the potential of the psychological characteristics they are endowed with. With the help of the projects financed by the European Union, the Romanian Government, the Social European Fund, Structural Instruments and different private and state companies, great sums of money have been allocated for activities of this type to put into light good entrepreneurs and qualitative Romanian businesses, capable to value both the human resources and the Romanian resources of all types.

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SOME EMPIRICAL STRATEGIES FOR IMPROVING THE ACCURACY OF UNEMPLOYMENT RATE FORECASTS IN ROMANIA

Assist. Ph.D. Candidate in Statistics **Mihaela BRATU (SIMIONESCU)**
Department of Statistics and Econometrics
Faculty of Cybernetics, Statistics and Economic Informatics
Academy of Economic Studies
E-mail: mihaela_mb1@yahoo.com

Abstract

This study proposed to evaluate some alternative forecasts for the unemployment rate of Romania made by European Commission and two national institutions: National Commission for Prognosis (NCP) and Institute for Economic Forecasting (IEF). The most accurate predictions on the forecasting horizon 2001-2011 were provided by IEF and the less accurate by NCP. These results were obtained using U_1 Theil's statistic and a new method that has not been used before in literature in this context. The multi-criteria ranking was applied to make a hierarchy of the institutions regarding the accuracy and five important accuracy measures were taken into account at the same time: mean errors, mean squared error, root mean squared error, U_1 and U_2 statistics of Theil. The combined forecasts of institutions' predictions are the best strategy to improve the forecasts accuracy. The filtered and smoothed original predictions based on Hodrick-Prescott filter, respectively Holt-Winters technique are a good strategy of improving the accuracy only for NCP expectations. The assessment and improvement of forecasts accuracy have an important contribution in growing the quality of the decisional process.

Keywords: forecasts, predictions, accuracy, multi-criteria ranking, combined forecasts, Hodrick-Prescott filter, Holt-Winters smoothing exponential technique

JEL Classification: E₂₁, E₂₇, C₅₁, C₅₃

Introduction

The evaluation of forecasts accuracy is necessary for establishing the decisional process. When more institutions in a country provide forecasts for the same macroeconomic variable, the deciders have to choose the one with the highest accuracy. The term of "accuracy" is put in correlation with the errors that affect the forecasting process, because only by hazard the predicted value of an indicator is exactly equal with its real value.

The original contribution of this research is related to the proposal of a new method of assessing the forecasts accuracy, taking into account more accuracy measures at the same time. The multi-criteria ranking let us make a classification of the institution according to more accuracy indicators.

On the other hand, the literature reports the necessity of improving the forecasts accuracy. We proposed as a strategy of obtaining better predictions than the original ones the combined forecasts and the filtered and smoothed predictions and we made comparisons with the original predictions to measure the degree of improvement.

Literature review

The actual objective of the researchers interested in the accuracy of the forecasts is to find out a suitable strategy to improve the accuracy. Therefore, new predictions are built starting from the initial ones. The economic crisis draws attention on the problem of uncertainty minimization.

In order to make comparisons between the MSE indicators of forecasts, Granger and Newbold used a statistic. Diebold and Mariano (1995) compared other quantitative measures of errors. Diebold and Mariano proposed in 1995 a test to check the differences in the accuracy of two forecasts. The test was later improved by Ashley and Harvey, using a bootstrap inference. Subsequently, Diebold and Christoffersen preserved the co-integration relation between variables.

Meese and Rogoff's paper, *Empirical exchange rate models of the seventies*, brought the most important initial contribution on the comparing of accuracy and bias. Recent studies made comparisons for forecasts based on different methods or made comparisons between predictions of the same variable registered in different regions.

Allan (2012) improved the OECD forecasts accuracy by the combined technique for G7 countries (horizon 1984- 2010).

Dovern and Weisser (2011) observed major differences in terms of bias, efficiency and accuracy for G7 countries forecasts and for each country between variables predictions.

Many institutions give their economic forecasts, the researchers being able to make comparisons between alternative forecasts of OECD, IMF, European Commission.

Abreu (2011) compared the performance of forecasts provided by IMF, European Commission and OECD, Consensus Economics and The Economist.

Franses, Kranendonk and Lanser (2011) concluded that the CPB model forecasts for 1997-2008 are in general biased and more accurate than those based on the government model.

Gorr (2009) showed that the univariate method of prediction is suitable for normal conditions of forecasting while using conventional measures for accuracy, but multivariate models are recommended for predicting exceptional conditions when ROC curve is used to measure accuracy.

Ruth (2008) proposed as strategy of improving the accuracy the use for more models associated to different countries in the European Union instead of one model.

Heilemann and Stekler (2007) provided some reasons for the lack of improvements in G7 predictions: non-useful macro-econometrics models and the unrealistic expectations regarding the accuracy.

Comparisons between unemployment rate forecasts made by different institutions

In this study we used the forecasted values of the annual registered unemployment rate made for Romania by European Commission, National Commission for Prognosis and Institute for Economic Forecasting. The forecasting horizon is 2001-2011. The objective is to assess the accuracy, the biasness and the efficiency of these predictions and determine the best institution with the highest performance.

Armstrong and Fildes (1995) showed that it is not sufficient to use a single measure of accuracy. Therefore, more accuracy indicators were computed for the three types of forecasts on the specified horizon.

To make comparisons between forecasts we propose to determine the hierarchy of institutions according to the accuracy of their forecasts using multi-criteria ranking.

Two methods of multi-criteria ranking (ranks method and the method of relative distance with respect to the maximal performance) are used in order to select the institution that provided the best forecasts on the horizon 2001-2011 taking into account, at the same time, all computed measures of accuracy. The multi-criteria ranking can be applied to make a hierarchy of institutions taking into account the performance of forecasts in all its dimensions: accuracy and efficiency.

$\hat{X}_t(k)$ is the forecasted value after k periods, t being the origin. The error at time $(t+k)$ is: $e_t(t+k)$. It is computed as difference between the actual value (a) and the forecasted/ predicted one (p).

The measures of accuracy that were taken into account at the same time for the multi-criteria ranking are:

➤ Root Mean Squared Error (RMSE)

$$RMSE = \sqrt{\frac{1}{n} \sum_{j=1}^n e_x^2(T_0 + j, k)} \quad (1)$$

➤ Mean error (ME)

$$ME = \frac{1}{n} \sum_{j=1}^n e_x(T_0 + j, k) \quad (2)$$

The sign of indicator value provides important information: if it has a positive value, then the current value of the variable was underestimated, which means expected average values too small. A negative value of the indicator shows expected values too high on average.

➤ Mean absolute error (MAE)

$$MAE = \frac{1}{n} \sum_{j=1}^n | e_x(T_0 + j, k) | \quad (3)$$

These measures are not independent of the unit of measurement, unless if they are expressed as percentage. RMSE is affected by outliers. If we have two forecasts with the same mean absolute error, RMSE penalizes the one with the highest errors.

➤ U1 and U2 Theil's statistics

$$U_1 = \frac{\sqrt{\sum_{t=1}^n (a_t - p_t)^2}}{\sqrt{\sum_{t=1}^n a_t^2} + \sqrt{\sum_{t=1}^n p_t^2}} \quad (4)$$

If U1 value is close to zero for U_1 (less than 0.5) we have a high degree of accuracy.

$$U_2 = \sqrt{\frac{\sum_{t=1}^{n-1} \left(\frac{p_{t+1} - a_{t+1}}{a_t} \right)^2}{\sum_{t=1}^{n-1} \left(\frac{a_{t+1} - a_t}{a_t} \right)^2}} \quad (5)$$

U1 and U2 Theil's coefficients are used to make comparisons between forecasts. The benchmark when U2 indicator is used is the naïve forecast.

If $U_2 = 1 \Rightarrow$ no significant differences as degree of accuracy between the two forecasts

If $U_2 < 1 \Rightarrow$ the forecast to compare more accurate than the naïve one

If $U_2 > 1 \Rightarrow$ the forecast to compare less accurate than the naïve one

According to all accuracy indicators for forecasts made on the horizon 2001-2012, excepting the mean error, the Institute for Economic Forecasting that used Dobrescu macromodel, provided the most accurate predictions for the unemployment rate. Only the forecasts of this institution outperformed the naïve predictions based on the random walk. The negative values of the mean error imply too high in average predicted values for all institutions. The less accurate forecasts are made by the National Commission for Prognosis.

Table 1

The accuracy of forecasts made by European Commission, National Commission for Prognosis and Institute for Economic Forecasting for the unemployment rate in Romania (2001-2012)

ACCURACY MEASURE	INSTITUTION		
	European Commission (EC)	National Commission for Prognosis (NCP)	Institute for Economic Forecasting (IEF)
ME	-0.5462	-0.5643	-0.7279
MAE	1.2372	1.6369	1.0916
RMSE	1.4959	1.7638	1.3059
U1	0.1074	0.1249	0.0927
U2	1.1587	1.0978	0.9983

Source: own computations using Excel.

Ranks method has several steps:

1. Ranks assign

The statistical units are the institutions that provided forecasts. The rank for each institution is denoted by: (r_{i, ind_j}) , $i = 1, 2, 3$ and ind_j – accuracy indicator j . We chose 5 indicators: mean error, mean absolute error, root mean squared error, U1 and U2.

2. The sum of ranks and the scores

$$S_i = \sum_{j=1}^5 (r_{i, ind_j}), \quad i = 1, 2, 3 \quad (6)$$

3. Assign final ranks

Table 2

The ranks of institutions according to the accuracy measures (ranks method)

ACCURACY MEASURE	INSTITUTION		
	European Commission	National Commission for Prognosis	Institute for Economic Forecasting
ME	1	2	3
MAE	2	3	1
RMSE	2	3	1
U1	2	3	1
U2	3	2	1
Sum of ranks	10	13	7
Final ranks	2	3	1

Source: own computations using Excel.

The results of the ranks method are the same as those provided by most accuracy measures, especially U1 used in making comparisons between forecasts. Actually, if all the calculated accuracy indicators are taken into account at the same time, the following hierarchy was gotten: Institute for Economic Forecasting, European Commission and National Commission for Prognosis.

The method of relative distance with respect to the maximal performance

1. The distance of each accuracy measure compared with the indicator with the lowest value

$$d_{i,tma_j} = \frac{tma_j^i}{\min_{t=1,2,3} abs(tma_j^t)}, i = 1, 2, 3 \text{ and } j = 1, 2, \dots, 5 \quad (7)$$

2. The relative distance for each institution computed as a geometric mean

$$\bar{d}_i = \sqrt[3]{\prod_{j=1}^5 d_{i,tma_j}}, i = 1, 2, 3 \quad (8)$$

3. Assign final ranks According to the values of average relative distances, the final ranks are assigned.

4. The location according to the best institution

$$loc_i^{96} = \frac{\bar{d}_i}{\min(\bar{d}_i)_{i=1,2,3}} \cdot 100 \quad (9)$$

Table 3

The ranks of institutions according to the accuracy measures (method of relative distance with respect to the best institution)

ACCURACY MEASURE	European Commission	National Commission for Prognosis	Institute for Economic Forecasting
ME	1	1.0338	1.3413
MAE	1.1342	1.550	1
RMSE	1.1465	1.3522	1
U1	1.1597	1.3489	1
U2	1.1623	1.0987	1
Average relative distance	1.1188	1.2628	1.0605
Ranks	2	3	1
Location (%)	105.4970	119.0771	100

Source: own computations using Excel.

The method of relative distance with respect to the best institution gave the same results as the previous methods. The lowest average relative distance was registered by the Institute for Economic Forecasting (1.0592).

The Diebold-Mariano test (DM test) is utilized to check if two forecasts have the same accuracy. The following steps are applied:

✓ The difference between the squared errors of forecasts (e^2) to compare and the squared errors of reference forecasts (e^{*2}): $d_{t,t} = (e_{t,t}^2) - (e_{t,t}^{*2})$

✓ The following model is estimated: $d_{t,t} = a + \varepsilon_t$

✓ We test if “a” differs from zero, where the null hypothesis is that $a=0$ (equal forecasts). A p-value less than 0.05 implies the rejection of the null hypothesis for a probability of 95% in guaranteeing the results.

The following variables are computed: d1, d2 and d3 to make comparisons between EC and NCP forecasts, EC and IEF predictions, respectively NCP and IEF expectations. All the parameters are zero from statistical point of view, so there are not significant differences between the forecasts provided by the three institutions in terms of accuracy. The regression models are estimated in EViews and the results are presented in **Appendix 1**. So, the accuracy test showed that there are not significant differences between the forecasts provided by the three institutions. If we take into account the results based on accuracy indicators and those of the DM test, we conclude the best predictions are those of IEF, followed by EC and NCP, but the differences between the unemployment rate forecasts are not too big.

By applying qualitative tests for directional accuracy we check if there is a correct prediction of the change. A test of independence between the effective values and the direction of change can be applied in this situation, the null hypothesis showing the independence. A probability less than 0.05 implies the rejection of null hypothesis. All the asymptotic significances are greater than 0.05, according to **Appendix 2**, fact that makes us to conclude that the directional changes in the outturn are independent from the predictions.

Strategies to improve the accuracy of unemployment rate predictions

Bratu (2012) specify her own strategies of improving the accuracy: (combined forecasts, regressions models, historical accuracy method, use of filters and exponential smoothing techniques).

The most utilized combination approaches are:

- optimal combination (OPT);
- equal-weights-scheme (EW);
- inverse MSE weighting scheme (INV).

Bates and Granger (1969) used the predictions $f_{1;t}$ and $f_{2;t}$, for the same variable X_t , derived h periods ago. If the forecasts are unbiased, the error is calculated as: $e_{i,t} = X_{i,t} - f_{i,t}$. The errors follow a normal distribution of

parameters 0 and σ_i^2 . If ρ is the correlation between the errors, then their covariance is $\sigma_{12} = \rho \cdot \sigma_1 \cdot \sigma_2$. The linear combination of the two predictions is a weighted average: $c_t = m \cdot f_{1t} + (1-m) \cdot f_{2t}$. The error of the combined forecast is: $e_{c,t} = m \cdot e_{1t} + (1-m) \cdot e_{2t}$. The mean of the combined forecast is zero and the variance is:

$\sigma_c^2 = m^2 \cdot \sigma_1^2 + (1-m)^2 \cdot \sigma_2^2 + 2 \cdot m \cdot (1-m) \cdot \sigma_{12}$. The optimal value for m is (m_{opt}):

$$m_{opt} = \frac{\sigma_2^2 - \sigma_{12}}{\sigma_1^2 + \sigma_2^2 - 2 \cdot \sigma_{12}} \quad (10)$$

The initial forecasts are inversely weighted to the relative mean squared forecast error (MSE). $m_{inv} = \frac{\sigma_2^2}{\sigma_1^2 + \sigma_2^2}$ (11)

Equally weighted combined predictions (EW) supposes the same weights to all models.

The U Theil's statistics were computed for the combined forecasts based on the three schemes, the results being shown in the following table (Table 4):

Table 4

The accuracy of combined forecasts for unemployment rate (2001-2011)

Accuracy indicator	EC+NCP forecasts	EC+IEF forecasts	NCP+IEF forecasts
U ₁ (optimal scheme)	0.0846	0.0666	0.1254
U ₂ (optimal scheme)	0.9867	0.7130	1.1063
U ₁ (inverse MSE scheme)	0.0864	0.0553	0.1105
U ₂ (inverse MSE scheme)	1.0026	0.5888	1.0116
U ₁ (equally weighted scheme)	0.0861	0.0739	0.0888
U ₂ (equally weighted scheme)	0.9207	0.7933	0.9134

Source: author's computations using Excel.

The combined forecasts proved to be a good strategy of improving the accuracy when EC and NCP forecasts, respectively EC and IEF predictions are combined using OPT and INV schemes. Only if equally weighted scheme is utilized we obtained better forecasts for the combined predictions of NCP and IEF. The most accurate forecasts are those resulted from combining EC and IEF expectations. All the combined predictions are better than the naïve ones excepting those of NCP and IEF using OPT scheme.

We test the biasedness of the combined forecasts. Only the combined forecasts based on CE and IEF expectations are biased, all the other predictions being unbiased. So, the combined forecasts are a very good strategy of getting unbiased forecasts.

Each combined forecast based on INV scheme provided different information if we make comparisons of two forecasts from this group. The combined forecasts of CE and IEF and those of NCP and IEF are relative efficient with respect to the combined predictions of CE and NCP. These efficient combined forecasts have a better performance than the original ones of the institutions in what concerns the efficiency.

Another technique of improving the forecasts accuracy used by Bratu (Simionescu) (2013) is the application of filters to the predicted data. The author recommends also the use of exponential smoothing methods like Holts Winters.

Hodrick-Prescott filter and Holt-Winters exponential technique were applied to the original predictions and the accuracy of new forecasts was evaluated. *Holt-Winters Simple exponential smoothing method* is recommended for data series with linear trend and without seasonal variations. The Hodrick-Prescott (HP) filter is very used in macroeconomics to extract the trend of the data series and separate the cyclical component of the time series. The smoothed data obtained are more sensitive to long term changes.

Table 5

The accuracy of filtered and smoothed forecasts for unemployment rate (2001-2011)

Accuracy measure	EC Filtered forecasts	NCP Filtered forecasts	IEF Filtered forecasts	EC smoothed forecasts	NCP smoothed forecasts	IEF smoothed forecasts
U_1	0.1316	0.1049	0.1043	0.1298	0.1291	0.1173
U_2	1.3966	0.9297	1.0721	1.3421	1.1795	1.2626

Source: author's computations using Excel.

Excepting NCP filtered forecasts, all the predictions based on HP filter and HW technique are less accurate than the naïve forecasts. Indeed, the NCP forecasts accuracy is improved, because a smaller value for U_1 was registered for the filtered predictions. The Holt-Winters smoothing technique did not improve the forecasts accuracy. So, the HP filter application is a good strategy of improving only the NCP forecasts. However, the combined predictions remain a better strategy. The filters or the smoothing techniques give god results only if there is not a change in forecasts direction compared to the real values.

Conclusions

In addition to economic analysis, the elaboration of forecasts is an essential aspect that conducts the way of developing the activity at macroeconomic level. But any forecast must be accompanied by macroeconomic explanations of its accuracy. The purpose of this evaluation is related to different aspects: the improvement of the model on which the forecast was based, adjustment of government policies, the planning of results. Basically, performance evaluation in this context refers directly to the degree of trust conferred to the prediction. Although the literature on forecasting methods and techniques used in describing the evolution of an economic phenomenon is particularly rich, surprisingly, few researchers have dealt with the methods used to improve the measurement of forecast uncertainty. The aspect is important, because the macroeconomic predictions must not be easily accepted, taking into account the negative consequences of macroeconomic forecasts failures, consequences that affect the state policies. The decisions of economic policy are based on these forecasts. Hence, there is an evident interest of improving their performance.

In our study, we assessed the unemployment forecasts performance for the predictions provided during 2001-2011 by three institutions: European Commission, National Commission for Prognosis and Institute of Economic Forecasting. The best accuracy is provided by IEF, followed by EC and NCP. This hierarchy resulted from the application of the multi-criteria ranking, but also from the measurement of accuracy indicators, as U_1 , used in making comparisons between forecasts.

The combined forecasts using the three classical schemes are a good strategy of improving the accuracy, most of the combined predictions being better than the initial ones. Filtered forecasts based on HP filter or smoothed ones based on Holt-Winters technique succeeded in improving only the NCP forecasts.

The forecasts accuracy should be a priority for the public that uses these predictions in underlying the decisional process. The combined forecasts and in some cases the filtered and smoothed predictions are a very good strategy of getting improvements in accuracy for the unemployment rate predictions.

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The results of Diebold-Mariano test in EViews

Dependent Variable: D1
 Method: Least Squares
 Date: 11/22/12 Time: 13:02
 Sample: 2001 2011
 Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.874545	1.187738	-0.736312	0.4785
R-squared	0.000000	Mean dependent var		-0.874545
Adjusted R-squared	0.000000	S.D. dependent var		3.939283
S.E. of regression	3.939283	Akaike info criterion		5.666382
Sum squared resid	155.1795	Schwarz criterion		5.702555
Log likelihood	-30.16510	Durbin-Watson stat		1.518619

Dependent Variable: D2
 Method: Least Squares
 Date: 11/22/12 Time: 13:02
 Sample: 2001 2011
 Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.530909	0.624816	0.849704	0.4154
R-squared	0.000000	Mean dependent var		0.530909
Adjusted R-squared	0.000000	S.D. dependent var		2.072281
S.E. of regression	2.072281	Akaike info criterion		4.381685
Sum squared resid	42.94349	Schwarz criterion		4.417857
Log likelihood	-23.09927	Durbin-Watson stat		1.521367

Dependent Variable: D3
 Method: Least Squares
 Date: 11/22/12 Time: 13:03
 Sample: 2001 2011
 Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.405455	0.886219	1.585900	0.1438
R-squared	0.000000	Mean dependent var		1.405455
Adjusted R-squared	0.000000	S.D. dependent var		2.939256
S.E. of regression	2.939256	Akaike info criterion		5.080698
Sum squared resid	86.39227	Schwarz criterion		5.116871
Log likelihood	-26.94384	Durbin-Watson stat		1.686150

The results of tests for directional accuracy

Test Statistics

	ur	Ec
Chi-Square	.818 ^a	1.273 ^b
Df	9	8
Asymp. Sig.	1.000	.996

Test Statistics

	ur	Ncp
Chi-Square	.818 ^a	.000 ^b
Df	9	10
Asymp. Sig.	1.000	1.000

Test Statistics

	ur	Ief
Chi-Square	.818 ^a	1.273 ^b
Df	9	8
Asymp. Sig.	1.000	.996

Section II

**FIELDS AND MANIFESTATION FORMS OF THE
WORLD ECONOMIC CRISIS IN ROMANIA**

AN ANALYSIS OF THE CRISES' CYCLICITY IN THE MARKET ECONOMY

Prof. Ph.D. **Mariana Elena BALU**
Faculty of Finance and Banking, Bucharest
Spiru Haret University
E-mail: mariana.balu@yahoo.com

Abstract

The social-economic phenomena and processes have a cyclical character, which falls within the natural development of the economic activity. Periodically, national economies or certain economic branches are affected by states of crisis, of unbalance, which disrupt the normal course of the economic activity and development. The occurrence of fluctuations in the economic field gives birth to economic cycles, defined as the time separating two economic or financial crises. Crises represent a deregulation, a sudden disorder of the economic balance, but they are necessary in the sense that they “are an indispensable sanction of management errors” and the problem is not the elimination of all crises, but only of those which “weigh heavily on the economic activity and are a systemic risk”. The main causes of an economic crisis are of a political, social or financial nature. Romania has been affected by the crisis at the commercial level, its exports being reduced and at the financial level, by the limitation of the access to external financing, reflected in the depreciation of the domestic currency. The analysis of the Balance of External Payments (BEP) in the period January-October 2011, shows that the deficit of current account of the BEP was of 4,097 million Euros, having fallen by 9.5% comparing to the same period of 2010, a situation explained by the reduction of the trade deficit by 12.7%.

Keywords: *economic crisis, financial crisis, economic cycle, the balance of external payments, the trade balance*

JEL Classification: B₂₆, E₂₁, E₃₂, G₀₁

Introduction

The economic evolution is not linear, but fluctuant, both in time and from one country to another. Periodically, the national economies or certain economic branches are affected by states of crisis, of unbalance that disturb the continuity of the normal functioning and development of the economic activity.

The analysis of the fluctuations in the economic field highlight the existence of economic cycles, defined as *the periods of time separating two economic or financial crises*. The crises represent a deregulation, a sudden disturbance of the economic balance, but they are necessary in the sense that they represent “an indispensable sanction for the management errors” and the issue is not their

complete elimination, but only of those that “weigh hard on the economic activity and represent a systemic risk”.

The cyclical evolutions are complex as there is neither a general pattern of the economic cycle, nor identical cycles, in terms of duration and configuration of phases, in the same country or in different countries. The governments and the economic agents try to implement measures that should reduce the negative effects of the economic cycles, especially of their recession phases, although any economy has an objectively determined cyclical evolution. From among the multiple causes of the cyclicity, the efficiency of the production factors’ utilization is the most important.

The analysis of the economic cycles shows that, in terms of length, they can be of three types: on a short, medium and a long term. We can distinguish between two main phases of the cyclical movement:

- *The expansion* (the economic boom) – characterized by a production growth, rising employment, salaries and profit, growth of the national income. Prosperous businesses are set up and cheap credits are offered by the banks. The economic efficiency rises (new technologies are introduced).
- *The depression* – when economic unbalances occur (the offer is larger than the demand), the labour productivity decreases, as well as the profit of the companies. The credits and the investments become more expensive and consequently less numerous.

The coming out of a crisis should be done by initiating a new expansion phase that should lead to a new increase of the demand in comparison to the offer, the production factors market being thus balanced. The short cycle is defined as a wavy movement lasting for about three years and being included in the medium term cycle. There are two phases in this process, the expansion and the contraction, which are influenced by the mechanism of stock formation and the market specificities.

The long cycle develops on a period of 40-60 years of economic evolution and consists of two phases: an ascending and a descending one. The ascending phase is characterized by years of prosperity, high rhythms of growth in the fields of national income, production, sales, investment, standard of living. Unlike it, the descending phase means a decrease of the economic growth rhythm, negative economic phenomena caused by the modifications in the structure of branches and sub-branches, in the structure of consumption and economic agents’ behaviour.

We can also speak about a century old economic cycle whose main cause might be the evolution of the scientific research and of scientific innovation. The decade old cycles occur on the background of the century old ones.

The analysis of the world economy demonstrates that, in time, it has been affected by numerous economic crises. We can define the economic crisis as a phase of the economic cycle, characterized by a relative surplus of offer in comparison to the population’s limited buying capacity, which will lead to a situation of uncertainty regarding the future, to the decrease of production, bankruptcies, unemployment, etc. It is however believed that the beginning of a crisis is a moment of qualitative change for an economy. Until the beginning of the

19th century there were under-production crises caused by natural phenomena (draught, floods) and by social-political situations (epidemic diseases, wars).

The market economies are characterized by over-production crises, triggered by the increase of the offer more than the demand, the effect being the goods and services on the market will not sell anymore and the companies will reduce their production.

NBER (National Bureau of Economic Research) defines the crisis as “a significant decrease of the economic activity, for more months, reflected in the decrease of the GDP, individual incomes, level of employment and in the diminution of industrial production and consumption”.

The economic crisis can take the form of a stagflation, a recession or an economic depression which can lead to an economic collapse. We can speak of economic depression when the GDP negative growth (more than 10%) lasts for more than two semesters. The economic depression is considered a severe form of economic crisis and of recession, being characterized by a severe fall of one or more economic branches.

The economists classify the crises as:

- *social crises* (rising inflation, unemployment, poverty);
- *financial crises* (increased volatility of the capital markets, fall of the stock exchange followed by spectacular recoveries);
- *political crises* (that can end up in wars);
- *local or international crises*;
- *crises caused by natural disasters*;
- *general economic crises*.

In general, economic crises are generated by financial, political or social causes. Then, *the financial crisis* is a form of manifestation of the economic crisis which shows the lack of trust in the financial system and leads to the deregulation of the market mechanisms, the decrease of the stock exchange transactions – these being a good indicator of different economic sectors’ state of health. *The economic crisis* is a situation when the money demand is higher than the offer and the liquidities are very low, because the money on the market are withdrawn from the banks. The financial crisis will thus lead to an economic crisis.

When the market is affected by severe deregulations, they will be mirrored in the performance of the listed businesses, the next step being the decrease of the savings and investments, as well as the increase of the bank interest on the market.

Modern economic theories, attempting to explain crises, reject the idea of a general theory of economic-financial crises, which would use a general definition. It is believed that each crisis is unique and it represents an accident of the history, being generated by specific factors, occurring in specific social, economic and political circumstances.

We will refer in the following lines to the points of view of some specialists in the field of economics, who studied the problem of the economic crises:

- **Milton Friedman**, promoting the theories of the market economy and the theory of the state’s minimum interference in the coordination of economy,

believes that: “the economic actors are always rational and in a market economy speculations are not possible, because the so called *speculation* is the investors’ attempt to protect themselves against the governments’ irrational actions”.

- **Charles P. Kindleberger**, in his work *Manias, panics and crises: a history of the financial crises*, believes that the financial crises are an inherent characteristic of the world capitalism.
- **Hyman Minsky** supports the theory of the “*financial instability*”, as a factor generating financial crises. Using this theory, H. Minsky demonstrates the unstable character of the capitalist system, in which the financial crisis is an element that cannot be avoided, but can be predicted. His theory says that the beginning of the crisis is due to a strong exogenous factor in a certain economic domain, followed by the increase of profit opportunities, by an investment fever fed by the growth of bank credits, until the market reaches a peak, beyond which there is a danger of price fall, on an overestimated market. When prices fall, the crisis will affect the investment sector and then the crediting zone, followed by a chain of bankruptcies, and, from this point on, the economy will find itself in a recession period or even in a depression. This stage is followed by a period of recovery and the market will reach a new state of balance, after having paid a very high price.

The financial crisis started in 2007, ten years after the last financial crisis in South-Eastern Asia can be considered the end of a decade cycle or a business cycle. This international crisis has affected Romania as well, but the Romanian banking system was not affected in a direct way as it was not exposed to toxic assets, due to the cautious measures taken by the National Bank. The crisis has hit the Romanian economy at a commercial level (reduction of exports, from the Balance of External Payments), and at a financial level (decrease of the crediting activity, limitation of the access to external financing, depreciation of the national currency).

The financial crisis started in 2007 deeply affected the European economies, which felt the effects mainly on *the capital market* and on *the labour market*:

From a financial point of view, one can notice:

- effects on the financial institutions (bankruptcies, restructuring);
- effects on the level and quotations of the stock exchange (the volume of the stock exchange transactions went down);
- effects on the investors’ behaviour on the market, they have left the capital market and changed their investment decisions;
- effects on the regulations on the capital market (intensification of controls).

On the labour market one can notice:

- a global crisis of the work places;
- decrease of the salary incomes (resulting in a lower standard of living);
- the implementation of measures meant to support the vulnerable social categories.

In order to support the national economies, the states of the world contracted loans from the domestic and foreign markets, which led to a boom of the public

debts. This burden of the public debts weighs hard on the public finances and on the banks' capacity to offer loans to the private sector. An attempt was made to finance the increased budget deficit from state loans, using both domestic and foreign sources, which would lead to a rise of the public debt (according to Table 1), and consequently to a rise of the fiscal weight borne by the tax payers. Thus, in the future, the reimbursement of the loans will lead to a decrease of the investment funds and, therefore, of the economic growth. The analysis of Table 1 shows an increase of Romania's foreign debt from 38,711 mil. Euros in 2007 to 75,612 mil. Euros in 2011, while the loans from the IMF of 5,686 mil. Euros in 2009 amounted to 10.231 mil. Euros in 2011.

Table 1

Romania's Foreign Debt

	Romania's Foreign Debt – mil. Euros				
	2007	2008	2009	2010	2011
I. Medium and long term foreign debt	38,711	51,762	65,616	72,909	75,612
I.1. Direct public debt^{a)}	8,181	9,028	11,984	16,158	1,956
I.2. Publically guaranteed debt^{b)}	2,019	1,721	1,517	1,708	1,509
I.3. Debts not guaranteed publically	25,292	35,545	39,186	37,733	35,904
I.4. Medium and long term deposits of non-residents	3,219	5,545	7,242	8,228	8,452
I.5. IMF Loans^{c)}	---	--	5,686	9,082	10,231

Note: a) foreign loans contracted directly by the Ministry of Public Finances and the authorities of the local public administration according to the legislation on the public debt, and also the Emergency Ordinance no. 99/2009 on the ratification of the *Stand-By* Agreement between Romania and the IMF; b) foreign loans guaranteed by the Ministry of Public Finances and the local public administration, according to the legislation on the public debt; c) loans from the IMF according to the *Stand-By* Agreement with Romania, excluding the amount received by the Ministry of Public Finances from the IMF according to the Emergency Ordinance no. 99/2009.

In Romania, the economic crisis has generated massive unemployment in most of the economic sectors, correlated with the decrease of production and the cessation of investments, especially at the beginning of the year 2009, as a consequence of the decrease of orders, on the background of the deepening economic and financial world crisis. The worst affected domains were the car industry, the manufacturing and the textile industry, the constructions and the wood industry. The real estate market was the most severely affected sector, as it was almost frozen in October 2009, on the background of an international financial blocking doubled by new crediting limitation measures imposed by the National Bank of Romania.

Although Romania has theoretically gone out of the recession on the 31st of March 2011, the Romanians have not felt it yet and they will not feel any improvement in the near future as their economic situation will not change too soon.

The economists have been interested in the study of the balanced economic growth, when the production growth is compatible in the long run with the macroeconomic balance (equality between the level of savings and investments) and respectively with the full use of the labour force. In the process of transition, there are certain critical elements that shall not be ignored: the savings rate (SR) and the investment rate (IR), which we can analyse using the data in Table 2, containing the calculations for the main economic indicators.

Table 2

The main macroeconomic indicators

- mil. Euro -

No.	Indicators	2009	2010	2011 * forecast	2012**	2013**	2014**	2015**
1.	A=FC + I	124,693	128,551	135,557	142,893	153,017	164,880	178,030
2.	FC	94,919	96,297	100,189	104,671	111,185	118,430	126,211
3.	I	29,774	32,254	35,368	38,222	41,832	46,450	51,819
4.	NE = E – I	- 7,164	- 6,543	- 6,270	- 6,840	- 6,870	- 7,710	- 8,680
5.	In	- 1,899	- 1,741	- 2,850	- 4,040	- 5,040	- 5,750	- 6,210
6.	CT	4,149	3,416	4,000	4,445	5,340	6,420	7,250
7.	BCA	- 4,915	- 4,969	- 5,120	- 6,435	- 6,570	- 7,040	- 7,640
8.	BCA/ GDP %	- 4.2	- 4.1	- 4.0	- 4.7	- 4.5	- 4.5	- 4.5
9.	GS = I + BCA	24,859	27,285	30,248	31,787	35,262	39,410	44,179
10.	DGNI= A+NE+In+CT	119,779	123,583	130,437	136,458	146,447	157,840	170,390
11.	GDP =A + NE	117,529	122,008	129,287	136,053	146,147	157,170	169,350

Sources: www.insse.ro; www.cnp.ro; <http://www.mfinante.ro>.

* forecast data;

** provisional data (forecast – The National Forecast Commission).

Legend: I – Investments, including the gross fixed capital formation, the stock variation and the statistical differences; A – absorption; FC – final consumption (private consumption, governmental consumption); NE – net export of goods and services; In – incomes; CT – current transfers; BCA – balance of current account; GS – gross savings; DGNI – disposable gross national income.

The specialized literature defines the correlation among these rates as *the balance relationship among savings, investments and the balance of current account*:

$$\frac{SCC}{PIB} = \frac{EB}{PIB} - \frac{I}{PIB} \quad \text{or} \quad BCAR = SR - IR$$

$$\frac{BCA}{GDP} = \frac{GS}{GDP} - \frac{I}{GDP}$$

As a main macroeconomic indicator, the GDP has grown by 3.8 % in 2010 comparing to 2009, and the data forecast by the National Forecast Commission show a steady growth until 2015. The BCA (deficit / balance of current account)

was of 4,969 mil. Euros in 2010, one of the lowest in the last seven years. The balance of current account was influenced by the increase of the service balance deficit, of 637 mil. Euros, which was 2.2 higher than in 2009. This situation occurred although the payments for freight transport and tourism increased, but the incomes from other transport services decreased. The current transfers figure was a positive one (3,417 mil. Euros), but, comparing to 2009, it decreased by 17.7 %, because of the diminution of the sums transferred by the Romanians working abroad and of the EU funds.

Although it had a negative value of – 5,906 mil. Euros, the trade balance deficit had a positive evolution comparing to 2009, that is a decrease by 14 % comparing to 2009. The structure of the trade balance shows that deficit situations characterized the intermediary goods, the raw materials and surplus situations were registered for consumption goods and capital goods. But 74.5 % of the trade deficit was caused by the inter-community trade.

Due to the 66% degree of openness of the economy in 2010, the imports were covered by exports in a proportion of 86.3%. The structure of exports shows an improvement, that is 91.4 % of the total exports were accounted for by the manufacturing industry. In their turn, imports rose by 20.1 % comparing to 2009, and this rise was due, on the one hand, to the volume increase of imports by 53.1 % and, on the other hand, another increase by 46.9 % was generated by the increase of the foreign prices.

We can analyze the relationship among savings, investments and the current account weight of the Balance of External Payments (BEP) within the GDP using the following rates (Table 3):

Table 3

Savings rate (SR), investment rate (IR), weight of the balance of current account within the GDP (BCAR) %

	2009	2010	2011	2012**	2013**	2014**	2015**
Savings rate: $RE = EB / PIB \cdot 100$ $SR = GS / GDP \times 100$	21.2	22.4	23.4	23.4	24.1	25.1	26.1
Investment rate: $RI = I / PIB \cdot 100$ $IR = I / GDP \times 100$	25.3	26.4	27.4	28.1	28.6	29.6	30.6
Weight of the balance of current account within the GDP: $RSCC = SCC / PIB \cdot 100$ $BCAR = BCA / PIB \times 100$	- 4.2	- 4.1	- 4.0	- 4.7	- 4.5	- 4.5	- 4.5

Source: www.insse.ro ; www.cnp.ro; <http://www.mfinante.ro>.

* forecast data;

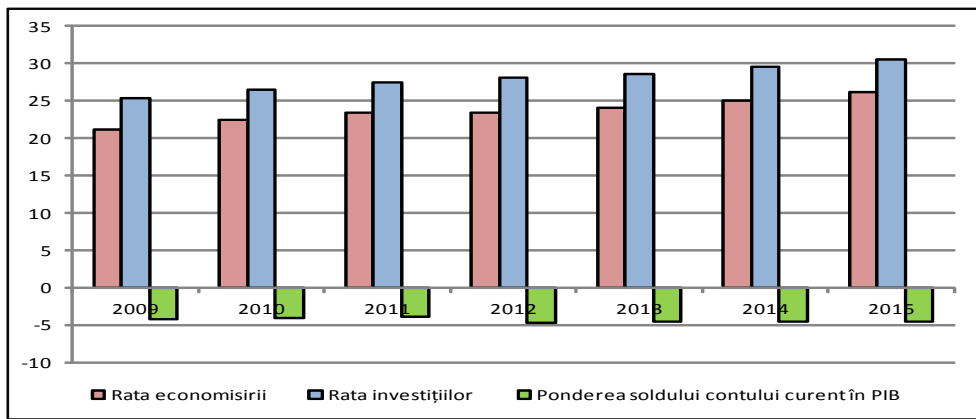
** provisional data (forecast – National Forecast Commission).

The analysis of the balance relationship shows a positive, ascendant trend of the two rates: the savings rate was of 22.4 % in 2010, which means a slight growth of 5.7 % comparing to 2009, while the investment rate was of 26.4 % in 2010, which means a 4.3 % increase comparing to 2009. The positive evolution of the two rates assured a low level of the balance/deficit of current account, which, according to the 2011-2015 forecast, will not exceed 5 %, a figure that represents a normal unbalance; however, the government should take the necessary measures to restore the balance of foreign payments.

We can analyse the connection between the rates using Graph 1, which shows an initiative of the government to increase the investment rate. The decision should support the economic growth, while maintaining the balance/deficit of current account below 5 %.

Graph 1

The balanced relationship among saving, investment and balance of current account



Rata economisirii = saving rate;

Rata investițiilor = investment rate;

Pondereea soldului contului curent în PIB = weight of the balance of current account within the GDP.

Pre-crisis Romania managed to obtain consumption based economic growth, but for a sustainable economic growth the efforts should be directed towards sectors with a high value added. Consequently, one of the financing sources for investment expenses will be represented by the domestic saving. It is forecast that the domestic saving will cover the investment, which will increase from 60% to 82% in 2011. Romania's domestic policy has been affected in the past years by an increase of the budget deficit, but, on the background of the public expenses increase, the budget deficit characterized many countries. In fact, any economic sector spending more than the incomes it generates will have to borrow money in order to pay the extra expenses.

If we analyze the balance of current account of the Balance of External Payments (according to Table 4), we will notice an increase of the deficit/balance of

current account by 2.92 % in 2011 comparing to 2010, and by 15.5 % comparing to 2009 – the calculation being made based on updated data and provisional data for 2011. The structure of the current account for 2011 demonstrates a favourable situation for the position Current Transfers which had a positive balance of 3,737 mil. Euros, that is a slight increase of 4 % comparing to 2010. The service balance was characterized by a slight decrease of 5 % comparing to 2010 – the highest growth being accounted for by the transport activity (929 mil. Euros). The trade balance had the highest deficit, of – 7,464 mil. Euros, which means a decrease of 2 % comparing to the level in 2010. This deficit of the trade balance is mainly caused by the diminution of the export activity in this period of financial crisis. The balance of incomes of 2010 shows that the 406 mil. Euros labour incomes reduced the large deficit produced by other capital investments, of -2.096 mil. Euros, especially interests.

Table 4

The current account of Romania's balance of external payments

- million Euros -

	2010 *			2011**		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
CURRENT ACCOUNT (A+B+C)	50,912	56,430	- 5,518	59,613	65,292	- 5,679
A. Goods and services	43,989	51,185	-7,196	52,291	59,376	- 7,085
a. Goods (FOB export – FOB import)^s	37,368	44,970	- 7,602	45,018	52,482	- 7,464
b. Services	6,622	6,220	402	7,275	6,893	382
B. Incomes	925	2,837	- 1,912	1,237	3,573	- 2,336
C. Current transfers	5,997	2,404	3,593	6,082	2,345	3,737

Note: * updated data; ** provisional data.

Conclusions

Consequently, the national and the global economic growth will not reach the level they had in the past years too soon, a massive re-balancing of the balance of external payments being necessary for reaching this objective. Furthermore, the crediting terms will remain restrictive although the liquidities on the monetary markets have improved. The worsening of these financial conditions has affected the economic growth and the low economic activity has led to many bankruptcies. It has also been noticed that the economic crisis has had negative effects on the export oriented economies, which were not prepared to absorb the structural shock

of the low demand for exports. The world's states are nowadays confronted with a difficult crisis, which, nevertheless, respects the cyclicity canons.

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UNBALANCES ON THE EDUCATION AND INNOVATION MARKET – ENHANCEMENT FACTOR OF THE CRISIS IN ROMANIA. A LIBERAL APPROACH

Lecturer Ph.D. **Aurelian Virgil BĂLUȚĂ**

Faculty of Financial and Accounting Management, Bucharest

Spiru Haret University

E-mail: aurelian.baluta@yahoo.com

Liviu JICMAN

Liberal Studies Institute

Abstract

The paper starts from the identification of imbalances on the education and innovation market in Romania. The implications of each of these imbalances on the amplification of the crisis are explained. Solutions are presented and estimates are made of resources to be allocated to restore that balance. The imbalance and economic growth issues and even demands of the knowledge economy aim to be addressed from a liberal point of view.

The paper includes the following chapters: introduction, the position of education and innovation resources in the fight for development against the crisis, the shortage of places in kindergartens – serious problem in pre-school education, the lack of funding for research, projects possible for a real deficit. The position of education and innovation resources in the fight for development is presented in accordance with international accounting standards, the economic science and the present radical liberal current. The last chapter lists specific projects and “My city, city of innovation” and “Internet/TV platform for pre-university education” projects are being detailed. Statistical data which is available at public authorities is used and the information from blog debates is being valued.

Keywords: *education market, innovation market, imbalance, crisis, re-launch, investment*

JEL Classification: I₃₉

Introduction

This paper aims to identify some gaps in the education and innovation market. There is used statistical information provided by public institutions. Solutions are presented as a long list of projects and a more detailed description of the two of them. This paper falls into the category of economic policies in general, of policies destined for education systems and innovation in particular. The data sources are statistical in nature. There were used public debates to which the authors participated, including the opinions of participants who did not have at a time the majority support and have given up to the launched ideas.

The development phase that mankind is going through now was defined by many professionals, with a quasi-consensus in this regard, as the knowledge society. But knowledge is based on information and most information we use is obtained through education. The transition to new stages of development is also conditioned by information obtained through innovative processes, primarily through scientific research. There are frequent points of view according to which “the technical-scientific revolution taking place in the world for decades, radically alters the conditions of production and opens unlimited possibilities for increasing the material wealth of the world, broadens knowledge and peoples spiritual life” (Sonea, G., 2009).

Generally speaking when the balance problem is tackled, it refers to the state budget, the labour market, the financial market, the money market. Sometimes the information market is included as the main feature of the knowledge society (Angelescu, C., 2009). Moreover, only tools that act on the financial, money, work markets, or on government spending are seen as solutions to exit the crisis. In other words the economy is seen in the short and very short term and mainly from the perspective of previous stages of evolution. We do not support the views under which focusing efforts in finding talent in contemporary society is a step taken outside the capitalist system, money passing on second place. On the contrary, the capitalist system must improve and allocate resources, especially to those specific activities of the new stage of society development, namely knowledge economy. Education and innovation should receive more resources to stimulate the present and future development and to limit the risks of new crises. Stability on the education and innovation market must be carefully tracked in the future, the prospects of development depending on them.

The position of education and innovation resources in the fight for development and combating the crisis

A problem for solving the crisis is finding ways to increase competitive advantage. To the extent that a firm, a national or regional economy identifies solutions to enhance their competitiveness on the market then it has chances not only to quickly emerge from recession but also to transform the crisis into an opportunity. Educational and innovative resources are the most flexible for an organization and among those who have the highest efficiency. The investment in education was frequently appreciated as the most effective investment. Using the competitive advantages specific to cluster collaboration (Gavrila, I., 2006) is not possible if there is no compatibility in preparing human resources and in organizational culture.

In defining the economic growth it is envisaged their stability and implementation in a reasonable time horizon. In a relevant and accessible approach, the economic growth policy represents actions and measures undertaken by the state for the growth of GDP *for a longer period of time* (Angelescu C., 2004). Under this definition, economic growth cannot be considered as a mathematical increasing of GDP while reducing absolute or relative resources allocated to areas that provide

economic and social support in the future, such as education and innovation. One of the major errors tackling education and research in Romania is including them in the category of current expenditure. Under international accounting standards taken in the national standards (MFP Order 3055/2009), resources that are acquired for obtaining future economic benefits are assets. The accounting doctrine further elaborated stating that “future economic benefits *embodied in assets* have the potential to contribute directly or indirectly to the entity’s cash flow” (Boajă and Lungu, 2006). It is exactly the case of education and innovation: resource consumption today for economic benefits to the public budget in the future. Benefits will be translated into cash flows generated by the activities of persons subject to education or innovative activities prepared in advance. In these circumstances, any allocation for education and innovation shall be accounted for as investments for the public budget, with a direct impact to the economic recovery in the future.

By drawing attention to the problems of education and innovation financing we do not see the presence of the state as perpetuated. Like the doctrine of radical liberalism states, only one prophecy should be possible in this field: the survive only of the units that can satisfy their customers, i.e. the youth and their families in the case of education establishments, the beneficiaries of innovation solutions in the case of research-development-innovation organizations (Friedman, M., 1998). Meanwhile, the educational and innovative services can be analyzed in terms of the economic theory of radical liberalism in the form of testing conditions for the existence of economic goods. Like any other products, services or works, even education services must meet all the following four key conditions: the existence of human need, the work to have properties which enable the subject to be put into a causal relationship with the satisfaction of a particular need, to have knowledge of this causal connection, to have a sufficient control over the property for directing it to satisfy the need (Menger, C., 2010). Customizing this to services of education and innovation we come to the requirement that they must meet the real needs of the present stage of development, namely the stage of knowledge society.

Education and innovation are important resources for development. Education is a critical filter to assess the equality of opportunity between genders, socio-professional categories, regions, races, etc. Discrepancies in access to education can lead on a medium or long-term to major differences in remuneration. Instead, the equality to education alone, without an economic and social environment based on competition, does not ensure equality of opportunities. For example in Romania, the student status of women in the labour market is 2% to 1.7% of men (Andronie, M., 2011). However, a significant gap is registered in favour of men in terms of income (Andronie, M., 2011).

The deficit of places in kindergartens – a major problem of the pre-school education

From the very first stage of education, the pre-school, there are problems that occur in allocating resources. The acute shortage of places in kindergartens,

especially in urban areas, is an imbalance with major impact. In the absence of validated data at a national level we will make an analysis at capital level.

According to estimates of the Bucharest City Hall, in September last year, the deficit of places in kindergartens reached, only in the capital, 25,000, the biggest problem being in Sector 3, where demand exceeded supply with 7-8000 places. This means that the required number of places in kindergartens was close, at that time, to double the offer provided by the public system, respectively 32,000 places for 2011. Unfortunately, this problem, although well known, is even more difficult to resolve given that it is denied by authorities in the field: ISMB (Bucharest School Inspectorate) representatives said, on the same occasion, that the existing number is “almost sufficient”.

The deficit of places in kindergartens in the public system in Bucharest is chronic, which is observed every year. Here are some figures from previous years:

For the year 2010-2011, ISMB centralized 37,000 applications as opposed to 31,500 places available. The resulted deficit is only the official one, adding to this the not submitted applications, because the parents are notified that there are no more places and so on.

The shortage of places in kindergartens in Bucharest is presented in Table 1.

Table 1

The situation of available places and the deficit of places in kindergartens in Bucharest

Sector	Available places in kindergartens	The deficit of places in kindergartens	The ratio between the deficit and the available places
1	2	3	4
1	4,752	1,124	23.65
2	6,700	950	14.18
3	4,700	2,950	62.77
4	4,200	1,859	44.26
5	3,360	1,765	52.53
6	5,600	1,800	32.14
Total Bucharest	29,312	10,448	35.64

The size of the deficit of places in kindergartens can be highlighted from multiple perspectives. Firstly, the large number of people that cannot be enrolled in pre-school education system shown in Table 1. Secondly, even the number of places available is oversized, which is also confirmed by the statements of ISMB representatives. Four or five years ago there were 10,000 applications without a place in kindergarten, and now the number of places decreased. Pre-school education units are required to enrol more children in a group, although the optimal number is 20. The distribution of kindergartens in Bucharest is not equal, so that puts pressure on some kindergartens in number of requests. As many applications

as possible must be honoured. For this reason, pre-school education units are forced to exceed the number by about six to eight children per group.

The lack of places in kindergartens has multiple negative effects. One of these is that, for each child that parents do not get a place in kindergarten, a family member is unavailable for the labour market, who has to stay home for child supervision.

Secondly, we find that it is also about social inequity: the financing of pre-school education system is made from public funding, from the budget. Therefore, the beneficiaries should all be, in an equal way, taxpayer citizens. Unfortunately, that's not the case. A part, those who manage to enrol their child in kindergarten, benefit indirectly from the financial allowance by participating in the system, with its advantages and disadvantages, the rest do not benefit at all. In this second broad category we include both parents who decide to enrol their children at a kindergarten in a private system and who support the full cost without benefiting from any allowance or subsidy from the state, and those who, failing to enrol their child in a kindergarten, stay at home for his care.

An idea launched for some time for public debate, on which no consensus was reached, is that of vouchers of education to finance kindergartens, which would ensure equal opportunities between the public and private system, would encourage the completion of the deficit of places with investments in private kindergartens and would guarantee equal rights for all children. Thus, each parent would receive a voucher of education for their child and will direct it to the kindergarten it wants. In this way financing is made in a competitive system, depending on the quality of services. The voucher has exclusive use. Its value will be equivalent to state money allocated to kindergartens.

The deficit of funding for research

There is no possible significant progress in any field, let alone research, the main branch supporting innovation, if funding issues are not resolved.

The connection between knowledge and the economic process is well defined by the economic thinking in general and by the liberal one in particular. It is properly appreciated the reality according to which "capital, labour and knowledge are limited means that man can use to fight the world's greed in which he exists" (Up, C., 2011).

From the data presented by the General Directorate for Regional Policy of the European Commission it results that Romania spends 0.5% of GDP on research and development, representing the lowest percentage recorded by a European Union country. The EU average is 2% of GDP, while the highest value recorded is 3.9%. This is while the GDP per capita for Romania is 45% of the EU average. Romania's plan is to achieve a rate of 2% of GDP spending on research and development by 2020.

Romania is also ranked on the last place regarding the number of employees in areas related to science and technology (12.6% of the total number of employees, than the European average of 18.8% and the highest value recorded of

33.1%) and the number of employees in high tech sectors (1.8% than the European average of 3.7%).

The fact that Romania is not investing enough in research, a priority field for other states, is not new. For example, in recent years, Romania has effectively spent for research and innovation only 0.49% of GDP. The government proposed in 2020 to achieve a level of research investment of 2% of GDP, of which 1% contribution of the private sector. In recent years, Romania has invested in research only one quarter of the European average, and the private sector contribution was about 0.15% of GDP. Thus, Romania's export of high technology is at a quarter of the EU.

After 2008, in the context of economic crisis and, especially, of budget deficit problems, investments in research have had more to lose. Limited investment in education is due to reasons related to the bureaucracy of public finances. It is easy to prove that, for Romania, as a country that aims to reduce the gap with the EU average through an economic growth, the chance of investing in research and technology is one of the main strategic options.

Possible projects for a real deficit

In the spirit of liberal doctrine, we state that it can act through stimulation or allocation of resources that have to return to the public budget. As argument we show in Table 2 a list of potential projects with limited resources and major effects.

Table 2

The list of possible projects with a low amount of resources and an important impact in the field of education and innovation

No.	Project name	Deficit on which it acts	Brief explanation of project content
1	Widen cooperation between schools and high schools in Bucharest or high schools in EU countries	Deficit in recognizing the value of training young people in Romania	Organized meetings take place, physical or virtual, between students from different EU member states
2	Wireless in public places where most people study or spend their free time	Deficit of information or inter-connecting activities	Specific investments with a role in education and information
3	Attracting quality students and teachers from schools in the submission and implementation of research projects	Innovation deficit	Increasing the number of people who can participate in innovative processes in society by attracting the recognized elite from Romanian high schools
4	Organization of competitions and creative centres for youth	Deficit in understanding and promoting values	Through contests and creation centres, talented young people in

No.	Project name	Deficit on which it acts	Brief explanation of project content
			the same field are faced
5	My city – city of innovation	Deficit for the implementation of large-scale innovation, cost-effectively	Further detailed below
6	Internet platform or local TV station for pre-university training	Deficit of general training under exigency standard	Further detailed below

Further, we detail two of the projects listed in Table 2.

The project „My city – city of innovation” – example of initiative to reduce the deficit of innovation

Project description. In the Prefectures and County Councils an “Advice for inventors” section is formed, consisting of two business consultants. They will provide free advice to all those who hold patents of inventor and want to apply them to commercial conditions or to industrial scale in that county or in Bucharest.

Project costs: Salaries and social contributions related to two specialists in business consulting. An estimated 10,000 lei per month.

Project benefits: A large number of patents will be commercially exploited. It creates jobs in sectors based on innovation, generally well paid. It increases fees charged to local budgets.

Flexibility. If performances reach saturation or proves ineffective it can be stopped at any time. Restructuring costs are equivalent to the period of notice for the two consultants.

Access to resources. In the following period a number of consultants specializing in structural funds will have far fewer orders due to the closing of this source of funding.

Relative comparative advantages of communities for such a project. There are a number of patents that were not implemented due to the gap between the idea and business resources. Most research institutes are able to make the micro-level production of a number of patents in their field.

The project “Internet Platform or local TV station for pre-university education” – a contribution to improve school training in terms of knowledge society

Project description. An on-line training platform is organized for students in the high schools and middle schools of the area of each county or in Bucharest. In case of large interest, a local television station can be organized dedicated to training. It presents advice for the exam subjects, foreign languages and other subjects of the curriculum where deficiencies are manifested in preparation. Such

media channels can be used for preparation of excellence – academic Olympics. There may be included career guidance sessions for students in last year classes. It can improve the results of international tests.

Project costs. The project can be self-sustaining from advertising. Initial investment is needed depending on the scale required.

Form of achievement. A joint stock company in which the county council, the City Hall of the county or the City Hall of Bucharest and each of the six sectors are shareholders with different shares (voting rights).

The project benefits. Improving school performance with a small amount of resources consumed and specific experience in the knowledge economy.

Conditions of project launch. Participating in frequency auction.

Pilot launch opportunities. Partnership with one of existing sites or television.

Specific advantages of the project. There is experience in this field in the private university system.

Conclusions

There is a shortage of places in kindergartens with social impact (inequity in access to budget resources for education) and economic impact (the reduction of potential employment). A fair funding of the education system, including pre-school, regardless of which system is chosen, should be made according to the number of children, potential recipients, and not the number of existing places. By their nature, education and innovation meet international accounting requirements necessary to be removed from the category of current expenditure. In the spirit of the liberal doctrine and the specific of knowledge society, a number of concrete projects can be performed, such as “My city – city of innovation” or “Internet platform / local TV pre-academic training” which may be conducted with limited resources but with important leverage for the economy and the public budget.

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Section III

**FORM THE HISTORY AND PRACTICE OF THE
ROMANIAN SOCIO-ECONOMIC DEVELOPMENT**

HISTORICAL CAUSES OF ROMANIAN SOCIALISM INSTITUTIONALIZATION

Lecturer Ph.D. **Eugen GHIORGHITĂ**
Faculty of Marketing and International Affairs
Spiru Haret University
E-mail: eugenghi@gmail.com

Abstract

*The **natural** classification of socialism in the evolution of the history of humanity is one more difficulty for many thinkers. Surprisingly enough, many intelligent people try to deny the sense of history by challenging historical reality. In other words, though it existed, it would have been much better for socialism not to have existed in the history of humanity.*

The dereliction of socialist ideology after 1989, the cancellation or ridicule of the principles and ideals expressed in the cant of the boring and demonetized slogans prove the fragility of the much-invoked damage of the so-called communist politics as an essence of the system. It was not the ideology, or the code of the communists' ethics or the supremacy of socialist property that made up the sense and essence of socialism as applied after 1948.

The 'objective' of applied socialism was the forced, accelerated development of the economies of the central and south-eastern European countries, based on the experience of USSR for the compatibility of the structure of the consumption demand of their inhabitants with the supply of the industrialized countries in a historical interval as soon as possible. God knows whether the effects of extending capitalism in these countries instead of socialism would have been the same or maybe even better until 1989! The fact is that socialism was imposed from the outside, without following in any way whatsoever the Marxist schedule of proletarian revolution determined by the enhancement of internal class contradictions.

The study of the League of Nations in 1945 reveals the programmatic character or, if not, at least the prophetic character of the advanced analyses and forecasts based on the developments of the 1870-1938 period.

- *during the interwar period, the gaps between the manufactured products exporting countries and the raw materials supplying countries widened;*
- *the diminution of the purchasing power in the countries exporting the basic commodities put more acutely in danger the sales of the countries manufacturing processed industrial goods;*
- *the economic gaps between the West and the East, i.e. the North and the South, could be reduced only by the fast industrialization of the countries exporting raw materials;*
- *the role of the external capital in the development of national economies was proved to be the least controversial; the internal, national accumulation was decisive;*

- *the free initiative, individualism and pseudo-market economy had proven their limits, as they had been ineffective for an accelerated development of the countries during early industrialization;*

- *the study of the League of Nations highlights the need of the constant intervention of the state in economy by means of central planning.*

Though socialism was not expressly recommended as the best solution for the forced economic growth and development of the raw materials supplying countries, the study of the League of Nations in 1945 argues and supports measures and convergent ways of action to a very similar socio-economic system.

Keywords: *accelerated development, forced industrialization, socialism urbanization, central planning*

JEL Classification: N₁₀

Introduction

Historical need of socialism

The socialism period still is one of the most controversial ages of the evolution of the economies of the former ‘socialist camp’. The analyses of the causes of socialism institutionalization have been focused so far on mainly geo-political and ideological arguments. Most of the historians invoked the expansion of Soviet imperialism, the developed capitalist countries were accused for abandoning Eastern Europe in the hands of the Bolsheviks on the line of the so often mentioned agreements in Casablanca, Cairo, Tehran – 1943, Yalta and Potsdam respectively – 1945.

The collapse of socialism in the 9th and 10th decades of the 20th century in most of the countries where it had been settled was insufficiently explained too, starting even with the huge Soviet power. What was the historical point of dividing the zones of influence for 45 years only?

A relevant analysis of the economic factors which determined the socialist *hiatus* has not yet been made.

Was socialism an *experiment* in history? An experiment made by whom? And to what purpose? Was socialism an *accident* of history? An *accident* which covered 5-8 decades?!

Was socialism a historical *need*? How can we establish what is *necessary* to take place in history?

The perspective of our analysis aims at this latter variant: socialism was a *historically necessary* stage. Although it seems difficult to understand and to digest such an interpretation, the historical analysis of the evolution of Romania’s economy in over 150 years of attempts of attraction to Western civilization leads to this conclusion.

The dependence of the developed countries economies upon the agrarian economies markets

The economic growth of the industrialized countries during 1800-1940 was manifested by their permanent expansion on the international markets. Unfortunately, the *external, international* or *world* market was objectively limited.

The expansion of Western economies was conditioned by the capacity of absorption of industrial products by the other economies of the world.

In its turn, the capacity of absorption of the various markets *peripheral* to the European and American economy was determined by:

- 1) *the degree of compatibility of the structure of consumption demand* in the importing countries with the structure of the supply in the industrialized countries;
- 2) *the purchasing power of the consumers* in the countries targeted to become importers of industrial products.

The failure of the efforts of compatibility of demand and supply

The expansionist trends of Western industrial society were revived during the interwar period (1919-1939): the issue of the redistribution of national markets reappears acutely. At the same time, the operating conditions and the factors of influence of international trade are discussed.

It is worth mentioning that the same issues were specific for the expansion trends of the West during the mid-19th century (at the beginning of the modernization of the Romanian national state).

The *solution* adopted at that time was the introduction of liberal and market economy institutions in *peripheral* countries in order to achieve the compatibility between business environments, as well as the cut of transaction costs.

After 80 years (1860-1940) of 'implementation' of capitalism and market economy in the *peripheral* countries, the results were utterly unsatisfactory. Self-consumption, the low income of most of the inhabitants, the consumer habits specific for a predominantly rural population were merely blocking the access of foreign products on the markets of such countries. During the eight decades, the economic gaps between the industrialized countries and the agrarian countries were not attenuated, on the contrary, they worsened.

It is obvious that a period of only 80 years, which corresponds in the history of mankind to the life of three generations, could not possibly assure a proper homogenization of the conditions of the *centre* and of the *suburbs*. The compatibility of lifestyles, mentalities and behaviours was still to be expected on long term. Preserving the institutional framework of democracy and market economy, nobody could have specified how much time was required for Romania, Bulgaria, Serbia, Slovakia, Poland etc. to become safe markets for the products and services of industrialized economies.

*The acceleration of economic development – best solution. The study of the League of Nations in 1945, **Industrialisation et commerce extérieur** (Industrialization and foreign trade)*

The development of international events during the last 150 years shows that the West was around World War II in a great dilemma:

- a) either to 'wait' on a hard-to-determine term in the improvement of the operation of market economy in *peripheral* countries and the proper growth of the purchasing capacity of such countries;
- b) or to assure the radical acceleration of economic growth in the countries aimed at becoming markets for the products of industrialized economies.

Deliberately adopting the second 'solution' has no longer the nature of a *working hypothesis* in historical research. In the light of the development of world economy from 1945 until today this interpretation gets a character of *thesis*.

The decisive arguments of the need for the acceleration of economic development in the non-industrialized or poorly industrialized countries are provided by the remarkable study of the League of Nations in 1945, *Industrialisation et commerce exterieur*. From the point of view of this study, the *total control of the state* appears as the best way of assuring a very accelerated economic development in the sense of compatibility in an as short as possible historical interval between the structure of domestic consumption demand and the structure of the supply of industrial products of the West.

Having considered the arguments in the above-mentioned paper, it is obvious that the socialist period, as we will see, cannot be considered an *experiment* or an *accident* of history, but a historical need from at least one point of view.

Literature review

Starting with the 5th-6th decades of the 19th century, the theme of the need for accelerated industrialization of the European countries 'pursuers' of England is approached from inside the concerned economies. Friedrich List is the first economist who supports the primacy of national¹ interest on the liberalization of international trade invoked by the classics of political economy.

List was a landmark for the evolution of two *emerging* economies at that time, the economies of some countries which would dominate Europe and the world: Germany and the United States of America. He strongly disputed in full expansion of the fundamentals of classical political economy liberalism, under the influence of Alexander Hamilton, the arguments in favour of extending the free trade in international trade already established by the classics (Smith, Ricardo, Mill, Say, Bastiat, etc.), saying that for a country, at the beginning of its development, it is essential to build its own domestic productive forces by

¹ In his fundamental work, List introduces expressly the word 'national' in the title of the work itself in 1841: *Das Nationale System der Politischen Oekonomie*. It is not only a speculation to note that List uses the word 'national' in the singular and as an attribute of a 'system', while Adam Smith, 65 years before, referred to the wealth of the 'nations'. The focus shifted at that time from searching *global* solutions characteristic for the age of the *enlightenment* and *encyclopaedism* to the local-regional consolidation at the national level. Today, the word *national* tends to be eliminated from the vocabulary of globalization.

developing national industry instead of depending on the import of *manufactured products* from the already industrialized countries.

National industry must already be protected in its beginnings against foreign competition; the argument of 'common sense' invoked by Friderich List is of supporting industry in the stage of its *infancy* (*infant industry argument*).

List is famous as a forerunner of the *German historical school* and his ideas were followed and developed in Germany by Wilhelm Roscher, Karl Knies, Bruno Hildebrand, Gustav von Schmoller, Karl Bücher, Adolph Wagner, Werner Sombart. In the United States of America, List was followed by Henry Charles Carey, Simon Nelson Patten etc.

The first representative of List doctrine in Romania is D.P. Martian, followed by B.P. Hasdeu, P.S. Aurelian, A.D. Xenopol, M. Kogalniceanu, E. Costinescu, An. Stolojan, Al. Djuvara, D.C. Butculescu a.s.o. until World War I. During the interwar period, *economic nationalism* developed due to the contributions of I.N. Angelescu, St. Zeletin, C. Ianculescu, Mitita Constantinescu, N.P. Arcadian, V.N. Madgearu.

The ideological development of a great economist such as V.N. Madgearu is interesting and inspiring. In most of his publications between 1920-1939, Madgearu represented the interests of the peasants, i.e. of the National Peasant Party, and he was the opponent of encouraged and state-protected industrialization and the supporter of the intervention of foreign capital. In his work dated 1940², Madgearu analyzed maturely and objectively the evolution of Romanian economy during the interwar period, and emphasized on the inherent dangers of the growth of *relative agricultural overpopulation* and the need of industrialization and intervention of the state in the economy by planning.

The need for the national industry development was systematically supported, remarkably by the argumentative effort, by Mihail Manoilescu, the most worldwide famous Romanian economist in the interwar period. Starting from the Listian doctrine of the *educational* protection of industry, Manoilescu tried to elaborate a true *theory* of industrial protectionism opposable to the *theory* of *international commerce* and of *free trade*.³ His paper was published first in French under the title *Théorie du protectionisme et de l'échange international*, Paris, Girard 1929, then in English, Portuguese, Italian (1931) and German (1937). Long labelled 'reactionary', 'fascist' or 'legionnaire', Mihail Manoilescu was rehabilitated by publishing his work in Romanian in 1986!

Despite his extreme right orientation, Manoilescian *ideology* was mostly 'applied' unintentionally by the communist regime not only in the field of industrial development.

Practically speaking, we may say that if Friedrich List had been the 'ideologist' of the system of economic ascent of Germany and the USA, Mihail Manoilescu was not only the theoretician, but also the *programmer* of accelerated

² V.N. Madgearu, *Evolutia economiei romanesti dupa razboiul mondial (Evolution of Romanian economy after the world war)*, Editura Enciclopedica, Bucharest, 1995.

³ Mihail Manoilescu, *Fortele nationale productive si comerțul exterior. Teoria protectionismului si a schimbului international (Productive national forces and foreign trade. Theory of protectionism and international trade)*, Editura Stiintifica si Enciclopedica, 1986.

economic development of the countries supplying raw materials at the beginning of industrialization bout in the interwar period and after 1945.

Determinants of socialism institutionalization

If at the beginning of World War II Romania had crossed a transition period of eight decades (1859-1939), from one type of feudalism to a type of pseudo-capitalism, the passing to socialism after 1944 was made without a 'transition', by the intervention of Soviet armies. True, socialist historiology had identified a 4-year period (1944-1947) when a 'bourgeois-democratic revolution' would have taken place, a necessary stage for passing to the 'proletary revolution'.

It is less meaningful for the history of economy the way in which the transfer of political power and the instauration of the 'proletariat dictatorship' were done. It is essential for the synthetic description of the new type of society the almost fully abolition of the private property institutions and the establishment of the state property by the nationalization of the main means of production and extension of the cooperative system.

The conditions and causes which determined the establishment of the State monopolist socialism are relevant for the history of economy – with its strictly nominative variant, *communism*⁴ – in some countries of the world.

Deterioration of the international economic relations in the interwar period

The theory of international trade had set out clearly enough until 1940 the idea that for harmonious and efficient development of mankind the following conditions would be sufficient:

- deepening of the international division of labour;
- widening the application of the free trade principles in international trade.

Unfortunately, the three decades elapsed from the start of the first world war until the end of the second world war (1914-1945) brought about developments in contradiction with the expected ones, i.e.:

- start of the inflation by suspending and abandoning the *gold-standard* monetary system;
- to cope with the exorbitant money demand from the governments of the countries involved in the First World War and in the immediately following period, the central banks issued huge amounts of monetary signs not backed in gold; the paper money became *legal payment means*;
- severe distortions of the international commercial and currency circuits;
- abandonment of free trade;

⁴ The term *communism*, so frequently used after 1989, has subjective-pejorative connotations, with ethical load. The approach from an objective politological and sociological perspective imposes the use of the notion of *socialism*, even if the leading political forces in most of such countries were the so-called communist parties. *Communism* remained even after 45 years of socialism 'mankind's (golden) dream'!

- exacerbation of the competition between the industrialized countries in search of new outlets;
- severe deterioration of the terms of trade in international trade; phrased as such, during the agrarian crisis 1928-1936, the countries exporting raw materials (agricultural and non-agricultural) needed to export a large quantity (in some cases almost double) of goods to import the same quantity of industrial products as before the crisis;
- considerable reduction of the purchasing capacity of the raw material supplying countries during the crisis of 1929-1933 by opening the *price scissors* detrimental to this category of countries;
- evolution of the terms of trade to the detriment of the raw material supplying countries associated with the process of capital ‘evasion’ as a result of the crisis brought some industrialized countries to bankruptcy and were obliged to declare the insolvency of external debts (the case of Romania in 1932);
- as a result of the diminution of currency receipts of the raw material exporting countries, *their demand for industrial products decreased considerably*;
- escalation of the tariff and non-tariff protectionism in most of the countries;
- generally, the industrialized countries imposed aggressive measures of protection firstly for their agriculture;
- in the raw material manufacturing and exporting countries, the efforts of stimulation of industry development were increased.

Reactions to the trends of accelerated industrialization of the commodity exporting countries

In the context of the increase of the aggressiveness of expansionist economic policies practiced in the industrialized countries in search for new markets (outlets), the attempts of establishment and encouragement of industry development in the various raw material manufacturing and exporting countries (commodities) were looked upon suspiciously and even with fear by the representatives of the interests of the industrial producers in the developed countries.

The perturbations brought by World War I and the big crisis between 1929-1933 had determined the start or increase of industrialization in some manufacturing and exporting countries especially of commodities, causing *short circuits* in the foreign trade of the old industrialized countries.

The western economists and politicians repeatedly expressed their *fears against the consequences of the continuation of industrialization in the agrarian countries* respectively, in general, in the raw material supplying countries. The *artificial* or *forced* industrialization encouraged by the state was considered one of the causes of the deterioration of the international economic relations.

Transition from free trade to protectionism. Manufacturing industry, balance of trade and balance of payments

The old industrial countries were – and still are – the main importers and exporters of manufactured items. As only the *net* imports of these items provided for the funding of the food and industrial raw materials imports, it was necessary to analyze the **trade balance** with manufactured and commodities.

Thus it was found that the industrially developed countries, which owned limited natural resources as compared to the population and their level of industrial development (the Japan case, for example), had to assure the increase of the net exports of manufactured products and of the net commodity imports.

Nevertheless, it was estimated that such an evolution of their trade balances was not incompatible with the industrial boom that might occur in certain areas.

This remark was based on the previous evolutions, namely, it had been noticed that the countries advantaged from the point of view of natural resources had increased their imports of manufactured items at the same time with the development of their manufacturing industry. Thus, until 1913 nothing had let to be seen that the progressive expansion of the industry of other countries could have disturbed the balances of the old industrial countries to the reduction of the rate of economic development; on the contrary, the concerned countries had preserved their position and were able to improve it.

The disturbance of the international economic relations during and after World War I affected to some extent the trade balances of these countries.

After the blockage of multilateral trade, at the beginning of the 4th decade, the prevalence of the actions of the factors of disintegration of international economy generated great difficulties to the *performance of the primary products flow in the direction of the industrialized states*.

The continuation of these flows was assured:

- either by adopting a commercial policy which contributed to the start of the general economic war;
- or by financing more and more because of the diminution of capital exports;
- or by the liquidation of foreign availabilities.

During the *regime of multilateral exchanges* which functioned after the 1929 crisis, the **current accounts of the balance of payments** of the industrially advanced countries were balanced by means of the active balance of the ‘invisibles’, i.e. of the revenues obtained from the maritime transports and insurance, from the repatriation of the *profits of the overseas capital investments* etc. Thus, for example, the UK could afford for over 100 years (starting with 1813) to import on an annual basis more than it exported, compensating the trade deficit by the capital inflows coming from the profits of the overseas investments, transports, international insurance etc. This was the practical foundation of the doctrine of liberalization of international trade promoted from Adam Smith on.

The massive withdrawal of capitals following the chain collapse of some large banks entailed the impossibility of maintaining – on a long term – the deficit of the

trade balance. Consequently, some countries with a tradition in the line of liberalism – Great Britain, for instance – had to adopt *measures of restricting imports*.

All the more so in the case of the countries lacking currency reserves – Romania case – under the conditions of the crisis, in 1930, the balancing of the balance of payments could not have been achieved except by serious trade balance surpluses. The latter obviously could not have been obtained as a result of the increase of the value volume of export, both due to the catastrophic decline in prices of commodities (agricultural and oil, in the case of Romania), and as a result of the incapacity of structural adaptation of the agricultural production (Romanian) to the signals of the European and world market. The promotion of aggressive protectionism in a world ‘entered into delirium’ – according to the remarks of a contemporary analyst – was a measure of defence in the case of a country with a predominantly agrarian economy.

Arguments in favour of continuing the process of industrialization of the countries producing basic goods

It is extremely eloquent in this respect the analysis made under the League of Nations by a group of researchers from several countries, an analysis published in 1945 under the title *Industrialization and foreign trade*. The study estimates the consequences of the industrialization of some countries producing and exporting basic goods, i.e. the agricultural countries, could have had on international trade and on the evolution of industry in the developed countries. The performed analyses aim at comparisons of the evolution of the industrial production and of international trade in various countries of the world between 1870-1929.

The above-mentioned study sets forth consistent arguments in favour of the *radical change in no time of the social and economic structures* of the non-industrialized or at the beginning of industrialization countries. The most important arguments are exposed below.

a. **Demand for industrial products** on the international market largely depended on the **export capacity of the countries producing basic goods**. The countries which had no developed manufacturing industry could not generally purchase such goods except as a result and to the extent of their commodity exports.

The strict dependence of the exports of such countries on the branches supplying raw material (agriculture and extractive industry) had already started to affect seriously the exports of industrial products (finite and semi-manufactured) of the developed countries.

The most pressing problem still was the correlation between the **demand for basics and the supply of industrial goods**.

b. If the increase of the industrial production of the countries at the beginning of industrialization would have been accompanied by a corresponding increase of the imports of manufactured goods (finite and semi-finite products), **the production of the industry of these countries would not have brought about prejudice to the exporters of the developed industrialized countries**.

Under regular conditions⁵, the imports from the old industrial countries would not have decreased following the development of the industry in other countries. The latter industrialization would have determined the diversification of their demand for consumption goods and the increase of the demand of manufactured goods on the world market.

c. Another reason why it was expected that industrial development would not have caused a reduction of the imports of industrial products was that in the countries with a dense population in particular, the industry ‘the most susceptible of progress’ was **decentralized and depended on the local markets** where, before creating this industry, the purchasing power in view of purchasing manufactured industrial products was limited.

d. On the other hand, **the capacity of absorption of large potential markets** was considered.⁶ Huge consumption potential markets had been too little or not at all attracted in the circuit of the world market until the 4th decade of the 20th century (USSR with an economy already in a process of accelerated development until 1940, China, India, South-East India, and the markets of the countries in Eastern and South-East Europe).

e. It was expected that by maintaining the already consecrate socio-economic structures between 1860-1940 in the poorly or at all industrialized countries, the considerable gaps between the consumption levels in the two categories **would have increased** in the following period. In the best case scenario, a relative mitigation of the gaps would have taken place in an **impossible to be specified** interval of time. The countries needed in order to assure compatible markets the as quick modification as possible not only of a consumption demand structure but also of the purchasing power of the non-industrialized countries.

f. To cover the huge potential demand of manufactured industrial products estimated worldwide and the increase of the purchasing capacity, it was estimated that the solution could have been the **accelerated industrialization of such areas**. The higher labour productivity, typical for mechanization, would have determined the enhancement of the industrial product supply by the development or establishment of some branches of the manufacturing industry.

g. It was stated that in order to remove all the fears of the representatives of the interests of the developed countries, in the countries at the beginning of industrialization, the **development of industry would have met sufficient adverse reactions, was therefore slowed down since the very beginning**. Meanwhile the **developed countries would have had the time to restructure the supply** after the potential diminution of the demand of manufactured industrial goods determined by the industrialization of the other countries. In this respect, the very increase of the

⁵ ‘Regular conditions’ means the conditions characteristic of international trade until 1914, respectively until the start of the 1929-1933 crisis, when the moderate tariff barriers did not determine stagnations or absolute reductions of the foreign trade volume.

⁶ The statistic research made by the League of Nations revealed that between 1926-1929, the production of industrial goods – besides food products – imported or processed in the concerned country, varied between USD 250 per US inhabitant and USD 3 in China.

exports of manufactured industrial products in the recently industrialized countries would have faced side effects which would have counterbalanced partially or totally the competition of the production of the old industrialized states.

h. The analysis made at the level of the League of Nations highlighted the fact that industrialization generally involves **great sacrifice** in the countries where it occurs artificially, forcedly and in an accelerated way and when the international economic relations had been back to normal, it would have been proved as **anti-economic by its artificialism**.⁷ In other words, it was admitted, and it is particularly significant for the liberal views which had been prevailing until the 1929-1933 crisis, that artificial industrialization could be tolerated to the limit of a new crisis of the international economic relations, and then, by removing the protection and repeal of the measures of industry stimulation, 'the international balance' should be restored. The price would have been obviously the collapse of the artificially established and maintained branches in the less developed countries – 'developing', which actually happened in the 10th decade of the 20th century.

i. After the start of the industrialization of some commodity exporting countries, some goods which used to be imported would have been substituted in consumption with products of domestic industry. Some industrializing countries which held insufficient quantities of currency would have been able to refocus a part of the funds designed for purchasing industrial goods to support commodity import. Thus it would have resulted an increase of the purchasing capacity of the other commodity exporting countries (still non-industrialized or on a lower level of industrialization) providing an at least constant level of the supply of manufactured products.

j. The modifications noticed in the activity of the manufacturing industry and world trade on a long term, 1870-1938, are conclusive for the support of the same conclusion: the countries where industrialization had started quite recently **had not become independent from the import of industrial products**.

Until 1930, the development of manufacturing industry – far from conferring to the concerned countries a certain independence in point of foreign manufactured items – had stimulated the import of such items, and the volume of transactions on the foreign market followed the trend of the parallel course of the activity of the manufacturing industry.

It was found that on the contrary, the small countries usually depended on the import of these products more than before the start of industrialization and that in the case of some countries of analogous dimensions, a high industrial production per capita was usually accompanied by big imports of manufactured goods.

Moreover, the countries whose industrial development had not been started still occupied the last places in point of imports of manufactured products per capita. The

⁷ This point from all the conclusions of the study of the League of Nations is extremely important: the argument was 'reassuring' for the industrialized countries, which were assured the 'return to normal' in the case of 'short circuit' of international commercial relations, by removing the conditions of favouring the industry of the less developed countries.

exception to this rule were a few regions of secondary importance which owned maritime communications favourable for the sale of a large part of their production of commodities in exchange for the foreign manufactured products.

The main distortions of this trend were determined by 'external' factors such as the modifications occurred in the commercial policies and perturbations caused in the international relations by the 1914-1918 war. After 1930, the prior relationship between production and commerce was broken in some countries which took measures of development of the manufacturing industry detrimental to imports.

In a similar manner, the comparisons made showed that until the end of the 1920-1930 period, the countries where the manufacturing industry had developed the fastest usually increased to a great extent the imports of manufactured items. The exports of manufactured products tended in their turn to increase with the production of manufacturing industry. The specific evolutions of the 1930-1938 period led to the conclusion that the real danger for the old industrial countries was not the expansion of industry – i.e. its development in other countries – but the impossibility of restoring multilateral trade or the potential collapse of this trade, provided that it had been reset.

The price competition, practiced in the recently industrialized countries, could have entailed losses on the market of some items considered in isolation, but *under normal conditions*, these losses would have been compensated by the proceedings generated by the new demand such competition would have caused, in various ways. These compensatory forces could not have possibly acted except under the conditions of a healthy operation of international trade. Great Britain lost several markets it had opened – in the previous periods, in the areas suppliers of raw materials – to the benefit of the competitor countries industrialized after it, especially after the collapse of the multilateral trade system, after 1930.

Therefore, **the risk that the demand of manufactured industrial products on the world market should diminish in the next period under the circumstances of the continuing industrialization of some countries** is out of the question. On the contrary, the effects of a *cascade* artificial industrialization would have been to the advantage of the industrialized countries.

Ways of assuring an accelerated development of the industry of some countries at the beginning of industrialization

This point of the conclusions of the analyses made worldwide, published at the end of the work in 1945 – already quoted – of the League of Nations is particularly important to establish the direction of the presumptive evolution of economy of the agrarian states in south-eastern Europe after World War II.

a. To enable proper conditions for *forced* industrialization in new regions on the globe, only the tariff barriers, specific measures for the industrial customs protectionism, were accepted on the background of the interventionist, persuasive measures mentioned above. The import restrictions to protectionist purposes were rejected which tended to favour national industry in the detriment of imports.

b. In this respect, the study of the League of Nations in its conclusive remarks showed that a **moderate protective tariff** aiming to support the national manufacturing industry on the domestic market would have had only restrictive effects with a limited and temporary character on imports. The admission of legitimacy of some protectionist measures is all the more meaningful as it represented the result of the research performed at the level of an international forum which had always paid great efforts of reasoning and assuring the need for international trade freedom during the interwar period.

c. To overcome the restrictive consequences determined by the protectionist practices, it was estimated that **only an international concerted action would have allowed the avoidance and overcoming of the commercial perturbations of this kind and the development of the necessary conditions for a really satisfying economic development**. In other words, the assurance of the survival of the artificial industries could have been done by creating some international bodies, among others, GATT –*General Agreement on Tariffs and Trade*, turned in 1995 into WTO – *World Trade Organization*), which should ‘harmonize’ the interests of the participating countries to international trade.

In 1949 the Council for Mutual Economic Assistance (CMEA) was established for the future countries included in the ‘socialist camp’ meant to provide with foreign markets compatible with the levels of development of the respective industries.

d. In the countries with a dense population, where approximately three quarters of the inhabitants dealt with agriculture, the development of industry was generally delayed because of the low standard of living – hence the poor accumulation of capitals and the absence of the propensity to saving –, the reduced labour productivity and the obsolete and inert social organization. The trade of such countries was not enough developed, the transport facilities were improper, the savings (accumulations) insufficient.

Their industrialization would have claimed in particular a radical modification of the social values and of the administrative system, as well as a reorganization and rationalization of agriculture. Under such circumstances, the increase of agricultural production would have been possible, at the same time with the diminishing of the agricultural overpopulation; a large part of the population who dealt with agricultural works would have become available for industry and trade.

In the first stages of industrialization, in the countries with a high density of the population, the development would have been enabled if industry had been decentralized and if the extent of the production had been relatively modest. In the case of an expanding, decentralized industry, a less deep social reorganization would have been sufficient: the useless urbanization would have been avoided, the use of the abundant resources of manpower would have been more available, and the need for investments in industry or in the public utility services lower. In the same countries with a dense population, the combination of a program of satisfying industrialization with measures aiming at the obstruction to an excessive growth of the population would have been necessary.

e. In these countries, it was important for the **natural resources to be exhausted as little as possible to enable a progressive industrialization**. It was estimated that some of these countries had probably overcome the stage where industrialization could have been spontaneous. **In such cases, this should have been the object of a carefully established plan and followed-up by the government intervention and support.**

f. **The foreign capital inflow** was very important for the development of foreign trade and of the public utility services which were a prerequisite of industrialization. The experience of the interwar decades showed that the amounts of foreign capital available for the development of a manufacturing industry were extremely limited. **Most of the industrial capitals should have been supplied by national accumulation.** The possibilities of obtaining such capitals, even in the countries where there was no margin of tolerance for compressing consumption were deemed to be more than at first sight.

g. Relying on a customs tariff as a unique or main means of stimulating industrialization had practically become a utopia. In order to succeed, an industrialization plan would have had to include in general a wide program of social renovation, of improvement of the hygienic conditions, of general and technical education, of the agricultural reforms and of the transport investments, in the production of power, and in the other public utility services.

This is the end of the conclusions of the analysis of the study of the League of Nations, *Industrialisation et commerce extérieur*.

Only one solution is missing from the expected ones: there is no mention about the need of **nationalization of the means of production, i.e. the establishment of socialism**. This path is only suggested by the severity and the extent of rigor involved in the other imperatives of expansionist essence contained in paragraphs 5.d, e, f and g.

As we can see, such a comprehensive study elaborated by specialists of the most important international body excludes the variant of maintaining the structures and rates of economic growth before 1940. The preservation of existing traditions, mentalities, socio-administrative structures could not guarantee a fast enough industrialization to assure as soon as possible from the historical point of view the transformation of the agrarian countries and the raw material supplying countries for the Western markets.

The League of Nations attempted by the medium-term analyses, 1870-1929, to identify solutions to expedite the industrial development of the commodity producing countries.

Conclusions on the premises of socialism institutionalization in Romania, from the perspective of the interwar experience

1. **As evidenced by the conclusions of the analysis made by the League of Nations, the forced industrialization had become an imperative of re-launching in as short a time as possible the international economic exchanges.** Of all the expected solutions – the return to the gold-standard-based multilateral

exchanges, the liberalization by reducing the intervention of the states and the international economic relations among national economic entities etc – *it is obvious that the decision, just like in the intervals 1855-1866 and 1916-1919 had been made at a high level*: this hypothesis leads to the substantiation of the reconsideration of the perspective of post-war reorganization of Europe and the world.

2. Instead of returning to the gold standard, a new monetary system was set up in Bretton Woods which, far from removing the danger of national monetary inflation, consecrated the possibility of worldwide inflation. It was most unlikely for anyone to expect a return to the multilateral exchanges system before the World War I.

3. The implantation of the ‘Iron Curtain’ – approximately on the barriers drawn at the end of Antiquity in South-Eastern Europe between the Eastern Roman Empire and the Western Roman Empire – enabled the distinct organization of the two categories of countries, industrial and agricultural. For the states recently entered under the guardianship of the Soviet Union, the totalitarian regime corresponded to a great extent to the conclusions expressed in the studies of the League of Nations.

– ‘*thoroughly established national plan* and followed up with *the intervention and support of the government*’;

– the increase of the internal accumulation rate;

– sanitation, urbanization, electrification etc. programs

the obvious motive of this divide of Europe and of the world was certainly not the trust in the state qualities as an organizer and entrepreneur, but the taking into consideration of the important gaps aggravated during the last interwar decade between the groups of states of ‘the two Europes’, industrial and agricultural. I met no optimistic mention in the specialized literature on the mitigation of the gaps without affecting the growth in the advanced countries by the ‘total’ liberalization of the international business relations, either *on short term* or *on long term*.

And if ideally one could have admitted that by the long term ‘total liberalization’ a mitigation of the gaps might have been obtained, nobody could have said either whether this mitigation would have been achieved by potential reductions of the rates of growth of the industrialized regions, or how long would have lasted.

According to the bitter experience of the autarkizations specific for the 4th decade, instead of a ‘total liberalization’, the development of zones of *integral protectionism* was chosen globally: the customs protectionism and the protectionism achieved by the legislation of encouragement of industry was attached the system of organic, integralist management of the (national) states with the whole amount of gradual objectives achieved – electrification, collectivization of agriculture, the implementation of large irrigation systems, sewerage, urbanization etc. – based on the **unique national plans**. In order to assure a foreign market for the manufactured products of these countries – which would have had small chances to penetrate from the very beginning the western markets –, the Council for Mutual Economic Assistance was established, and the General Agreement on Tariffs and Trade was set up for the regulation of international economic exchange.

The most acute problem at the European and world level was the **expedite growth of the economies of these countries**. It was estimated that the high rate of growth could not be assured on a 'liberal way'. This rate was necessary for the mitigation of the gaps especially from the point of view of the compatibility of the consumer markets with the supply of the industrialized countries. This idea is suggested – at least, if not obvious – by the conclusions of the above-mentioned study of the League of Nations.

In support of the hypotheses presented we remind here two of the conclusions of the most reputed Romanian interwar economists:

'Today's Eastern Europe is a poor client for Western Europe. But could Eastern Europe of tomorrow not become a rich client? This is the main problem of Europe. If the clients are poor, he who sells must take care first to make them rich!'

Mihail Manoilescu, *Zusammenarbeit zwischen Ost-und Westeuropa auf meuer Grundlage*, in 'Weltwirtschaftliches Archiv', Bd. 41, März, 1935, Heft 2, p. 167.

'Without assuring a continued growth of the accumulation of capital, the national economy of a people cannot represent a safe foundation to build a national state on.

Once established that on its way to a distorted capitalist economy by a chaotic state interventionism, spasmodic and exposed to all influences, Romanian economy could not accumulate Romanian productive capitals, only two roads remain open: the road of pure liberal capitalist economy or the state-controlled organized economy. The first – in the light of the experience of the whole world – appears as utopian; the second, which emerges from the life conditions of the country and from the need to build strong foundations for the development of the Romanian national state, far from being looked upon as a Promised Land appears as a national imperative.'

Virgil N. Madgearu, *Evolutia economiei romanesti*, Editura Stiintifica, Bucharest, 1995, p. 290.

It is most likely that the formation of the consumption habits and the improvement of the purchasing power of a huge amount of rural population – if we consider also China's potential – who in 1938 was still providing with the basic needs from self-consumption, could not have possibly completed in the short interval of 50 years on the way of free evolution by itself.

It becomes obvious that adopting the socialism path was the historically *necessary* solution for the acceleration of the economic development of *lagging countries*. 'The historical coincidence' of the collapse of the socialist system in 1989 in most of the countries where this system had been introduced after 1945 proves that the objectives established in 1945 had been attained.

The arguments in support of this **thesis** are clear:

A. In the case of Romania, after extremely low rates of growth in 1859, only by the intervention of the great European powers and the organization of an interventional economy was the process of modernization started. It is not hard to imagine that without those interventions the Romanian Countries would have still ‘lain’ either under Ottoman rule, or in a **smooth, peaceful patriarchal life**.

B. The introduction and application of the ‘institutions of freedom’ – for 80 years – according to the western model seemingly had unsatisfactory results in the case of Eastern Europe. It is the only possible way to explain coherently the decisions made – worldwide – of expansion of the Soviet totalitarian system and, from the historical point of view, the developments in the ‘40s correlated with those of the last half of the 9th decade of the 20th century.

The analysis of the extent in which the objectives by the organization of the world after 1945 attained their purpose is the very analysis of the ‘achievements’ of socialism. Yet, it is beyond any doubt that at least an objective was attained, namely the achievement of the compatibility of the demand structure in the countries with an important consumer market with the supply of manufactured industrial products of some important producers in the strongly industrialized countries.

To what extent the purchasing power of the consumers in these countries will keep satisfying the need for outlets of the leading producers is still a challenge for the specialists, politicians and decision forums at the level of concerned countries.

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Redactor: Mihaela N. Ștefan
Tehnoredactor: Mihaela N. Ștefan, Magdalena ILIE
Coperta: Magdalena ILIE

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e-mail: editurafrm@yahoo.com