FROM ECONOMIC GROWTH TO ECONOMIC DEVELOPMENT: MANAGERIAL STRATEGIES FOR ROMANIAN LEADERS

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Abstract. *The economic theory on development and growth has continuously evolved, keeping the pace with the structural changes in economy. In time, it has thickened, new facets and angles having been added. Every school of thought produced their arguments and brought to the front the development factors deemed relevant at the time. The development of a nation cannot be achieved outside these schools of thought and lacking an approach that allows development factors to be identified that are relevant for the context and adapted to the respective nation specificity. However, Romania seems to follow sinuous paths in stimulating economy, sometimes very different and corresponding to various economics schools of thought and with no apparent correlation. Based on structured literature review and on analysis of different economic indicators that allow comparisons over time between European countries, this paper focuses on the identification of the real causes of Romania's economic development stagnation. It also emphasizes models that could be translated into the national practice, as well as failures of previous attempts in adopting specific models of development. The authors finally present a set of recommendations for national leaders on how to transform economic data-based decisions in a source of national competitive advantages, as a first step towards a real strategic management at national scale to achieve the goal of economic development.*

Keywords*: economic development; strategic management; leadership; economic vision.*

Introduction

Economic growth can be understood in different ways and is commonly defined as "sustained increase of a country's population and of the domestic product per capita" (Kusnetz, 1963, p.3), an exclusively quantitative concept. Therefore, economic growth is not synonym with economic development, which implies more dimensions, from wellbeing to social advances and a better quality of life. Apparently, in a paradoxical way, Romania is a country that scores economic growth, but remains rather vulnerable about development itself. The country was in 2017 the "tiger of Europe", scoring a 5.7% GDP raise, double that of the EU average (European Commission, 2017), without this explicitly reflecting in welfare - almost 1/3 of the population states that its quality of life is worse than a year before (Starea Națiunii Barometer, 2018).

How could we explain such a paradox? Is it a stereotypical understanding of economic theories? Is it a matter of lack of vision and coherent strategy? What could decision makers do in the future to transform economic growth in economic development? We will approach all these aspects further.

Economic development: more than GDP

There is no politician in any government who would not publicly boast about raising figures that indicate economic growth in a certain time span. However, economic growth does not mean welfare or development. In time, a fully-fledged macroeconomic analysis apparatus has developed, various indicator alternatives being proposed: GDP, GNP (Gross National Product), national income. At present, GDP is, by far, the most frequently used of them in all official studies and reports that deal with the issue of economic growth and development. However, we cannot but note that, like any measuring instrument, the GDP is not exempt from issues that make its relevance when used in the topic of development questionable.

For instance, the GDP does not record intermediate goods, but only the final ones, which means that an intermediate good produced today will only be recorded in the GDP of the next one or two years, even if resources were used for its production in the present time. Also, the GDP does not record the total debt (public and private) accrued by a nation, meaning that its dynamics may originate to a high extent from an increase in the public debt that finally represents either higher taxes in the future or higher inflation by expansion, in the future, of the money supply (both diminishing future growth). Significant economic growth can be „borrowed" from the future via monetary mechanisms. The GDP does not record the underground economy („black market" exchanges), the informal economy (whatever is not formally recorded in accounting or statistics, barter trading or compensations) or financial asset investments (bank deposits, investments in bonds and shares, equity investments in funds, etc.). In such case, a strongly financialized economy can have significant welfare that is not reflected in the GDP.

Finally, the GDP does not consider the market value of the fixed assets (land, buildings, equipment, machinery, etc.) that contribute, directly or indirectly to the final goods production process (Georgescu, 2016; Bulin & Baltatescu, 2015; Fasolo et al., 2013) and systematically fails its social dimension and its relevance to the „social state". The clearest proof of these limitations of the GDP consists in the subsequently proposed indicators, more relevant to the issue of economic growth in relation to the social state, i.e. the Human Development Index, the Gross National Happiness Index or the Social Progress Index (Mankiw, 2015).

From theory to reality

Over the time, most schools of economic thinking dealt with the issue of economic growth and development and each of the theories stated by them were put to work in strategies and policies which had inherent limitations coming out of the very stated concepts (see Figure 1), especially when decision makers do not understand and operationalize them in a balanced strategic mix. We will present further some facts in the case of Romania correlated to literature review.

School of economic thought	Factors of economic development
Mercantilism	Money, exports, protectionism.
Physiocrats	Agriculture, population's dynamic. Limited role of the state.
Classic (liberal)	Labour productivity, capital, external trade and comparative advantages, market mechanisms.
Schumpeterian	Entrepreneurship, innovation, new products, new markets.
Keynesian	The aggregate demand influenced by monetary and fiscal stimuli, investments in production capacities, growing of the labour and capital productivity
Neoclassical	Interconectivity of originar productivity factors, markets' quality, intensity of competition, better labour force, better organization of production, scale economies.

Figure 1. Synthesis of main ideas on economic development
(Source: authors' analysis based on literature review)

Most of those who support ideas of development based on trade exchanges and state protectionism get, in fact, their inspiration in the mercantilist school of thought, who see welfare accumulation as the engine of economic growth of any nation, thus depending significantly on trade activity and on the support provided by the state. If we look to the case of Romania, we can see that the country has a real potential for exports, as their development in time proves it, but every increase of exports is very dependent on imports (Figure 2).

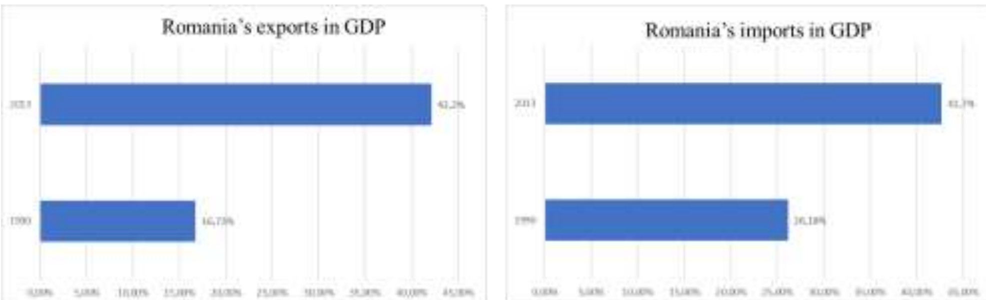

Figure 2. Romania's GDP dependence on exports and imports
(Source: Eurostat, 2018)

Countries having fertile and irrigable land can consider agriculture as a solution for development – an idea inspired from the older physiocrat school of thought, stating that a nation's economic growth and development mostly depend on agriculture. The main limitation of this outlook is the neglect of the other sectors of economy, like the industry and the services. Nevertheless, there are countries that could focus on agriculture, especially when having the resources. It is not, anymore, the case of Romania, once an agricultural country, where the importance of the sector in economy reduced in less than 30 years from more than 40% to less than 5%, without gaining in terms of other sectors that could produce multiplying added value, such as industry (Figure 3). We can observe an important reduction of the importance of vital economic sectors such as agriculture or industry (without constructions) and an expansion of the trade sector, while stagnating education and health services and decreasing the gross added value in the GDP from 115,21% in 1990 to 87,7% in 2013 (Eurostat, 2018).

	Year % GDP							
Sector	1980	1985	1990	1995	2000	2005	2010	2015
Agriculture	12.6%	14.1%	21.2%	18.5%	10.9%	8.9%	6.5%	4.3%
Industry	49.9%	46.0%	43.7%	29.9%	24.9%	25.0%	28.0%	23.3%
Constructions	7.3%	6.7%	5.4%	6.5%	5.1%	6.7%	9.4%	7.2%
Trade	6.7%	5.9%	6.2%	14.3%	18.4%	18.5%	13.7%	15.8%

Figure 3. The structural changes of the Romanian economy
(Source: Eurostat, 2018)

Economic development often is correlated with the need for increased productivity, an idea originating in the classical liberal school of thought. For the classics, a nation's welfare essentially depends on improving the result produced when using the original input (land, labor and capital) using higher productivity labor and increasing the capital involved in the economic processes (Smith, 1776). Romania's hourly employee productivity was in 2015 one of the lowest in the EU: index 59 vs 100 for EU28 (Eurostat, 2018).

Another school of thought with possible solutions to economic development is the Schumpeterian one. Schumpeter (1911) associated innovation capacity and technological changes within a nation with entrepreneurship and the spirit behind it. An entire school of economic thinking started from this approach, generated by an empirically proved reality: the SMEs are the largest job generator at a global level (70% of the total employed population globally), considered to be the intermediary link between growth and inclusion (Qiang & Andersen, 2016). The SMEs stimulate innovation (Almeida & Kogut, 1997), yet they have much lower resilience to sizable economic turbulences (Kerekes & Coste, 2014; Visinescu & Micuda, 2011), as it has been the case in Romania during the last decade. In Romania, the average net termination rate of the industrial companies was of -2.2% in the 2009 – 2015 period (about 1500 companies disappeared on average every year over what was newly created in the industrial sector). By comparison, in Poland the similar rate was 0.82% - about 2000 new companies annually created, while in Bulgaria the rate was 1.51% - about 500 new companies added annually to the industry (Eurostat, 2018)

Public spending, as the Keynesian (also the neo- and post) school of thought postulates, can stimulate economic growth. The Keynesian school of thought highlights two factors that can influence economic growth and development: the monetary factor (interest rate influenced by the monetary policy) and the fiscal factor (public investments). The main problem in the Keynesian approach relates to the possible inflation impact of the expansionary monetary policy and to the fact that lower consumption does not necessarily mean higher unemployment or lower investments, but it can produce ample modification in the production structure. Another critique of the Keynesian theories points to the fact that public investments are not always productive or valuable investments, being sometimes highly exposed to error. Such an example is the structure of public expenditure in Romania in 1995, compared to that of 2015 (Eurostat, 2017):

in 2015, the Romanian state spent less money on infrastructure or economic activities compared to 1995, but allocated more money to expenses of questionable knock on effect (recreational, culture and religion).

Finally, there is no economic development without economic growth, which needs capital to be sustained, and the capital can be obtained by saving. This is the outlook of the neoclassic school of thought that deems savings rate vital for the capital stock, and population dynamics important for economic growth, along with better-trained workforce, improved human resource skills and abilities, better-organized production, and scale economies achieved in the production chain/process (Solow, 1956). Romanian households' savings reached an historical maximum in 2017, of 15.98% in Q2 (INS, 2017). Nevertheless, more capital is needed to fuel the economic development. For instance, gross fixed capital formation in Romanian GDP is still low - 23.6% in 2013 vs. 19.79% in 1990 (Eurostat, 2018), making capital investments more than necessary.

Answering the limitations in the trends of thought mentioned above, the supporters of the endogenous theory of growth consider that there are state interventions that can favor long-term economic growth, with a direct impact on the rate of saving. In this outlook, additional factors associated to a nation's increased welfare are the quality and performance of the human capital, the intellectual property rights legal framework, the subsidizing of research – development activities by the state, as well as the state efforts to attract new technologies (Lucas, 1988). Another trend of thought explicitly stresses the direct role innovation, research and development and education activities have in development, and the way in which such lead to producing highly innovative goods and services that are subsequently sold in the global markets. Still, studies (Perilla, 2015; Capello & Lenzi, 2012) show that although there is a direct relationship between these aspects and economic growth, similar policies yield different results from country to country, as a function of the specific characteristics of every one of them.

Managerial implications: what should decision leaders do?

The economic theory on development and growth has continuously evolved, keeping the pace with the structural changes in economy. In time, it has thickened, new facets and angles having been added. Every school of thought produced their arguments and brought to the front the development factors deemed relevant at the time. The development of a nation cannot be achieved outside these schools of thought and lacking an approach that allows development factors to be identified that are relevant for the context and adapted to the respective nation specificity.

Decision makers of a country need two things to manage the economic development in a robust and resilient way: to understand the economic concepts that lie behind it and to correlate them more with data and less with stereotypes. There is no miracle solution for a country development, but there are ways to start and enhance it, as other examples have already proved it. Economy is after all making decisions that are constantly influenced by other decisions. Markets seek, principally, balance, but when it is not or cannot be achieved, the government intervention can improve the welfare of society (Krugman & Wells, 2014) – therefore, it is necessary to understand the factors leading to the lack of market equilibrium and implicitly to analyze possible state policies meeting such situations.

Unfortunately, Romania is a country with a very visible lack of strategic vision to guide its development. One of the aspects that prove this situation is the evolution of the economic growth itself during the last 30 years (Figure 4).

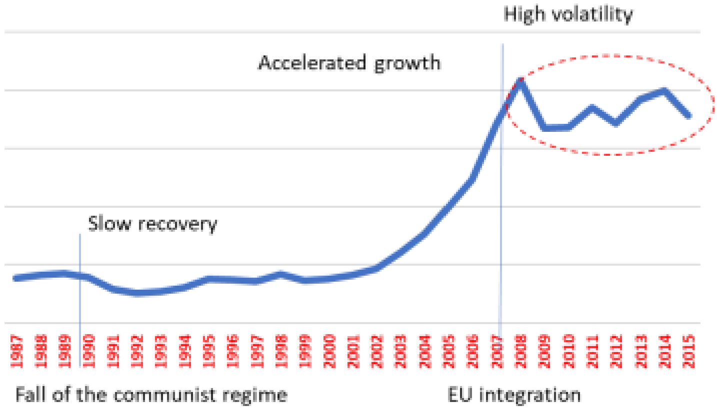

Figure 4. Romania's GDP evolution
(Source: Eurostat, 2018)

Not only that Romania's economic growth is very volatile, but it is also dependent on consumption, fueling other European economies in times of expansion and not necessary the internal production facilities. Moreover, the gaps between regions and between the rural and urban areas tend to grow, despite the cohesion policies that have been put into practice.

Among the concrete solutions that decision makers could consider accelerating the country's economic development, some seem more reasonable than others. Romania is a country where GDP has been constantly influenced by exports, both from agriculture and from industry. Nevertheless, it is the only country in the region, which experienced a profound deindustrialization situation in the 90s, as well as a very important reduction of its agricultural sector. Moreover, the structure of the industry changed from heavy industry in the 80s, to lohn textile industry in the 90s and to a more sophisticated lohn of assembling in the car industry at present. To enhance exports as a source of economic growth and afterwards of economic development, a country needs to find and enhance its own competitive advantages, from education, to research and innovation or natural resources exploitation. Strategic management postulates vision, strategy and coherence in planning and implementing operations as a mandatory condition for all development. It is not different in the case of a country and the same principle is to be applied also in the case of a potential exports-driven growth strategy. Less dependence on imports and more orientation towards local production could be robustly achieved not through protectionism, but through long-term policies that favor capital investments, as well as productivity, competitivity, local entrepreneurship and new markets, others than the EU one.

One of the current weaknesses of Romanian economy remains the added value, in constant regression during the last three decennials. As a matter of fact, a successful exports-driven growth strategy can rely only on a high added value production, even if the beginning of the market penetration is oriented on cheap products, as it was the case of Japan in the 70s or of China in the early 2000s. From exporting cereals, for instance, Romania should consider exporting more local high value aliments. Such an approach is possible if it is strategically assumed by the country's decision leaders and implemented coherently and constantly through well-oriented and efficient policies and regulations. To develop more complex production capacities, Romania desperately needs investments in infrastructure, in education and in research, all correlated to keep in the country as many as possible production stages.

Decision making should be data based. Too many times, perceptions seem to guide politicians when proposing so called development strategies, as we can see when there are debates about how competitive the IT&C sector is in Romania, for instance. The Romanian IT&C companies' turnover accounted only for 61.29% of the turnover of similar Hungarian firms in 2015 and only for 33.27% of that of the Polish companies with the same profile. Moreover, its value was roughly the same in 2008-2015, with only 11.5% increase in 2015 compared to 2008 and although it has a larger population, Romania had twice as many enterprises operating in high technology sectors than Hungary in 2014 (Eurostat, 2018).

Last but not least, decision making should carefully consider theories and not stereotypical understandings. For instance, growth through public debt is not per se malign for an economy, and it could look even benign in comparison with the public debt of other countries. Nevertheless, considering GDP boosting by more public debt should be carefully considered, especially if the borrowed money is not directed towards economic added value activities with a multiplying effect. Romania's public debt per capita was at a level of 3189 euro in 2016, a continuous ascending evolution from just 65 euro in 1995 (Eurostat, 2018). An increase of nearly 50 times of the public debt per capita in 21 years should maybe fuel more development than just GDP through infrastructure or education investments. Unfortunately, the state of the Romanian infrastructure is assessed by the European Commission, based on the World Economic Forum Global Competitiveness Report, with a score of 2.6 for the railway and 2.7 for the road for 2016-2017 - the last place in the EU, where 1 means very undeveloped and 7 extensive and efficient (European Commission, 2018).

Conclusions

The discussions about economic development can only be framed within the already developed and tested arguments that were brought forth by the economic school of thoughts. In this vein, the development of a nation can occur when the decision-making powers are aware of the crucial development factors that need to be identified and adapted to the specific needs of the nation. This is no easy task at hand, as there is no magic solution for a nation's development, but rather an assiduous work of comprehension and adaptability. In an increasingly changing economic environment, constantly influenced by the decisions and actions of a large variety of actors, the government intervention can improve the welfare of society. In the same time, the government is in charge of identifying the critical factors that cause the volatility of the markets and, implicitly, the government's responsibility is to provide possible state policies that meet such situations.

In this context, Romania is a nation that lacks a healthy planning and a long-term vision. Romania has come a long way, but its path is somewhat paradoxical when referring to its economic growth and respectively its development. The country was has registered a significant increase in its GDP; however, the country's population does not perceive any changes in the quality of life, quite the opposite. Trying to understand the root cause of this, other factors, which influence Romania's economic development stagnation, come to light. As such, we see the economic growth of the country dependent on consumption, but not on the internal production. Furthermore, we see a deindustrialized country that struggles to boost its GDP by augmenting its public debt, but not by focusing to invest in infrastructure, in education or research. This bleak picture, calls for action. Romania is in need of a long-term strategy and vison, and strong leaders that ground their thinking and decision making process on factual data, and not on assumptions or perceptions.

There are not always easy and clear-cut solutions when dealing with the issue of economic growth and development, and each school of thought comes with its strengths and shortcomings. Nevertheless, the approach of governments should be one of in depth comprehension and analysis combined in a balanced strategic mix adapted to the country's specific needs. From the role of innovation, education, infrastructure to the more complex production capacities, they all have a direct impact in the economic development of a nation in different degrees, depending on the specific characteristics of every one of them.

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