

## INVESTMENT DECISIONS IN ROMANIA BETWEEN FREE ENTERPRISE AND PLANNING

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### 1. Planning or Free Enterprise in Romania

#### *1.1. Transition in Romania = the death of the Planning and of the economic models*

In Romania, the Socialism was a government imposed form of economic system and this system was based on the Planning. The main idea was that <The government takes and government gives>, and it imposed a perception of the lack of opportunities and of attitude <can't do>.

In this respect, the Romanians suffered greatly due to more extensive planning, which began with the establishment of economic targets through five years plans and ended with the establishment of a total of 4 children for every family.

Therefore, since 1990 the planning process has become taboo, considering that the market economy needs no plan and economic models, but only the free enterprise.

In fact, throughout the transition period, Romania's economy could not dispense with the tools and techniques confirmed by economics in developed countries.

For example, every year has been prepared the budget of income and expenses to national and local level, leading to a process of forecasting and planning.

But this planning was short-term (up to one year) and it was influenced both by fear and the incompetence of politicians to bring before the public a transition strategy, a model of change.

Economic literature in all of the transition countries has underlined the complexity for elaboration an economic policy, under the pressure of rapid establishment of a political democracy, but without creating an institutional framework and without an experience of the economic democracy.

#### *1.2. Free enterprise in Romania, between the past and future*

Free enterprise feeds the competitive spirit of man and the economic system evolves naturally in a society. Opposed to socialism, this system emphasizes the individual's role in society and it based on the ability to recognize the opportunities of life and an attitude of <can do>.

In Romania, after 1989 there was a shift from socialism to the market economy, but only politically. Economically, there is an extended transition process and the absence of some clear strategies that stimulate the free initiative.

Romanians lost the exercise of free initiative for 50 years after the establishment of socialism after 1944 and the Romanian socialist politicians were the bitterest opponents of small businesses. There were few areas where people have had some free initiatives (for example, farmers from mountain areas not cooperativized). The overwhelming majority of the population was forced to assimilate the idea that <The government takes and government gives>.

In transition, this mentality overlapped to the unclear strategy of transition to the market economy.

However, Romanians have tried to recover as much freedom of initiative and partly succeeded, as shown in Table no. 1.

**Table no. 1. Number of enterprises, employment and gross value added in EU-27 and Romania, 2010 (estimates)- %**

SME in total:	EU-27	Romania
Enterprises	99,8	99,7
Employment in private	66,9	68,1
Gross value added	58,4	45,7

Source: *European Commission, Annual Report on EU Small and Medium sized Enterprises 2010/2011.*

The European Commission Report of 2011 shows that the small and medium sector - SMEs in Romania is average across the EU, EU 27, regarding the number of SMEs in total companies, employment in total employment in the private sector and the contribution to GDP.

The crisis affected strongly the SME sector, and the result is seen primarily in the evolution of SME sector in Romania.

The number of SMEs has evolved over the period 2000-2009 from 412,429 units in 2000 to 625,458 units in 2009, of which the micro increased from 375,804 units to 573,299 units over the same period.

**Table no. 2. Number of enterprises in SME sector in Romania, by size class**

	Micro	Small	Medium	Total
2000	375804	29121	7504	412429
2003	417366	33856	8147	459369
2006	410763	43419	9322	463504
2008	602711	49560	9753	662024
2009	573299	43724	8435	625458

Source: *Raportul anual privind sectorul IMM din România, 2010, Evoluții între dificultăți și provocări, Fundația Post-Privatizare, www.postprivatizare.ro*

It can be noticed that micro enterprises had increased by 10%

compared to previous years in 2003 and 2006. The largest increase occurred in 2008 by 40% compared to 2007. This trend, however, was quickly canceled by the crisis in Romania, so that in 2009 there was a 5% decrease of microenterprises and the recovery in 2010 did not recover these discounts.

## 2. Romania and others changes in the world economy

### 2.1. Free enterprise and globalization, but with high risks

The combination between free initiative, globalization, lack of rules or reporting of some targets generated a number of risks for national and global developments.

Many people consider that it's time to recognize that there's a crisis in actual capitalism, that corporate policies are a failure, and that the current economic crisis could easily lead to a disastrous political crisis. This crisis is based on the economic system with free enterprise, but where few restrictions are placed on business activities and ownership.

From another perspective, more and more countries are faced with unwanted correlation: Free Enterprise, Poverty and the Financial Crisis, and this correlation become even more dangerous by the contagion effect due to globalization.

Visible consequence of the turmoil from the largest economies is the emergence of a syndrome of continuous global monitoring of the regional or international bodies, together with increasingly frequent meetings of policy-makers in almost all countries, with the hope to establish more democratic and transparent the conclusions and some ways to follow.

But every time they were not acceptable for all economies and the economic, social and environmental crises manifest even greater.

Many policy-makers and experts are in accordance with idea about <Globalization, based on the Planning and Public Policy>. But, the dilemma is who and how will be proposed the plan and the reforms to the global economy.

*2.2. Measures for the real economy not only for the financial market*

One of the consequences of the crisis is that, in macro-economic policies the role of the IMF and the World Bank, and ECB may become more important for governments in urgent need of foreign financial resources (aids or loans), especially in shaping the public investment choices .

It can be noticed however that these international institutions have been concerned mainly by the financial stability, even with severe austerity on countries expenses and people's spending, but results were not satisfactory.

More and more experts and many governments are dealing with measures to support the real economy. A summary of these measures is given in Table no. 3.

**Table no. 3. Overview of policy responses to the economic crisis in EU Member States**

Areas	Measures
<b>Financial sector</b>	<i>Guarantees</i> <i>Recapitalisation</i>
<b>Fiscal policy</b>	<i>Change in fiscal</i> <i>Discretionary stimulus:</i> -overall -measures aimed at households -increased spending on labor market -measures aimed at businesses -increased Investment
<b>Real economy</b>	<i>Labor Market:</i> -Encouraging flexible working time -Supporting employment by cutting labor costs -Retraining and activation -Supporting households purchasing power

<i>Investment:</i> -Energy Efficiency -infrastructure -R&D & innovation <i>Business support:</i> - Sectoral support for automotive, tourism, construction - Easing access to finance
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*Source: The EU's response to support the real economy during the economic crisis: An overview of Member States' recovery measures European Economy Occasional Papers No 51/2009, p.16.*

The EU Member States have focused primarily on measures to reduce financial constraints.

EU Member States have placed the main focus on measures to ease financing constraints.

On the other hand, the free initiative in Europe is seriously affected by numerous regulations on compliance with quality requirements, the environmental rules being invoked and an excessive bureaucracy. For example, the investments impose accessing the European funds and need time and complex documents.

Also, many social rules have imposed so many burdens on small employers. Plus, there is a lack of clarity on future tax policy.

**3. Planning and Free enterprise for Romania**

*3.1. Support and plan for Romania from the international financial institutions*

In Romania, the financial difficulties gave rise to a series of reforms, with support from the international financial institutions in health, education, the financial sector, public financial management (such as treasury and debt management, macro forecasting capacity, strategic prioritization in the budget process), public administration, social insurance and social assistance. Some of these reforms address short-term responses to

the crisis, while others are anchored in a coherent longer-term strategy.

So, the prediction and multi-annual planning was enforced by the EU.

Thus, accession to the EU is based on National Development Plan – NDP 2007-2013 [3], prepared by Romanian Government in December 2005 with *six national development priorities*:

- Increasing economic competitiveness and developing an economy based on knowledge;
- Developing and modernizing transport infrastructure;
- Protecting and improving the quality of the environment;
- Developing human resources, promoting employment and social inclusion and strengthening the administrative capacity;
- Developing rural economy and increasing productivity in the farming sector;
- Diminishing development disparities between country regions.

After joining the EU in 2007, Romania has established a number of investment projects according to EU funding, which also set certain targets for economic and social development.

On the other hand, the World Bank established areas and priorities for Romania in crisis, as shown in Table no. 4.

**Table no. 4. Areas and priorities set by the World Bank for Romanian crisis**

Areas	Priorities
<b>1.Sustainable Development</b>	-Agriculture -Environment -Infrastructure
<b>2.Human Development</b>	- Health -Education -Poverty and Social Protection
<b>3.Public Sector Reform</b>	-Reform of the Public Administration -Governance/ Institutional Development

<b>4.Private sector development</b>	- <i>Competition</i> - <i>Business environment</i> - <i>Research Development and Innovation</i>
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*Source: World Bank–Romania Partnership Program Snapshot, April 2012.*

Investment decisions are directed to these areas, so that politicians and the Romanian government must conduct a planning influenced by the IMF, World Bank and European Commission.

All international institutions focus on expanding free initiative, both by supporting the SME sector, but also by involving more people, individually or organized in different structures for investment projects. This fact would prove the establishment of economic democracy, which can achieve the right combination of planning-free initiative.

### 3.2. Actors of the planning and free enterprise

The idea of civil society is critical in the understanding of politics and public policy.

The institutional structure of the civil society in market economy is the following [1]:

- (a) a government which is limited and accountable, operating under the rule of law;
- (b) a market economy (a regime of private property);
- (c) an array of free, voluntary organizations (political, economic, social, cultural),
- (d) a sphere of free public debate

But, first of all, the planning cannot be separated from politics and the planners make political and ethical choices all the time.

In that context, one should accept that planning is a highly political process, both when politics is considered as an authoritative redistribution mechanism and when it is defined as a

deliberation process on the common issues of a community.

Secondly, especially in the developing countries governments are under the pressures of both international institutions as well as national clientele.

One may distinguish between; experts that are specialists of a particular field (transport, rural development, health, etc.), experts that have a broader perspective on planning with their interdisciplinary background (policy experts), experts that are specialized in communication and facilitation techniques, and experts that combine two or more expertise cited above.

In that context one may distinguish among local, community, national, international and trans national experts; experts working for public agencies versus those working for private and civil institutions; and experts as political activists or expert, political activists that provide services to political parties, civil society organizations and social movements.

Romania needs a planning education to train policymakers, experts and mediators among different groups about the feasibility of the investment decision.

#### 4. Conclusions

Investment decisions depend on the correlation Romania free initiative-planning, so this correlation is influenced by both the transition process and the changes caused by the current crisis.

Transition in Romania equated with death of the Planning and of the economic models, but many people think

that lack of planning equals chaos and crisis, corruption and favorable domestic and foreign speculators.

In practice, first of all for all of the transition countries there is the complexity for elaboration an economic policy, under the pressure of rapid establishment of a political democracy, but without creating an institutional framework and without an experience of the economic democracy.

Second, the transition is not an easy transition to a model economy, as the financial crisis has highlighted many weaknesses in those economies considered developed, and globalization has contributed to the emergence of the real risk of contagion.

Planning is important and useful process for a modern society, being a branch of economic science based on calculations and econometric models more and more complex.

The prediction and multi-annual planning was enforced by the EU.

After joining the EU in 2007, Romania has established a number of investment projects according to EU funding, which also set certain targets for economic and social development.

As well, the World Bank established areas and priorities for Romanian crisis.

But, the planning cannot be separated from politics and the planners make political and ethical choices all the time.

In that context, one should accept that planning is a highly political process, and Romania has a strong need to make education in planning.

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