

Summary of the doctoral thesis:

INVESTMENTS AND FIXED CAPITAL IN THE ROMANIAN ECONOMY

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Choosing this topic was justified by the belief that the development of the human society was based on the human behavior, as homoeconomicus, permanently oriented towards the obtaining of the methods of meeting the human needs in continuous diversification. In this way, the mankind has known a development based on a progressive accumulation of capital assets. The accumulations were performed both at the individual and community level, based on savings, the current stage of the development of mankind being the result of a continuous investment process. For this reason, since the beginnings of the economic science, the investments have been the subject of some intense debate and permanent refundments through various permanent visions, gaining an increasing importance today, as a result of the dynamism development amplification and economic growth, also the intensification of the existent socio-economical development of disparities existing between the world countries and the zones of each country.

The main purpose of this paper is the knowledge of the investments-capital-development relationship, in the present context of the Romanian economy. Studying this topic, I wanted that through the theoretical, methodological and practical research of the investment process to capture the entrainment phenomena's of future sustainable development of the Romanian economy, taking into account considerable gaps, which Romania has to recover from other Member States of the European Union. For this purpose, I chose as the starting point the capital analysis in its real expression (physical), without neglecting, however, the investigation of its financial dimension, given that the current economy of Romania is a market economy, in which the actual values are coupled with the symbolic values, and the circuit of the real economic values involve simultaneously a reverse circuit of the symbolic values (monetary).

Trying to make my contribution to the knowledge of different view points on the relationship investments-capital-development I have structured the paper into five chapters, giving equal importance to the theoretical approaches, the diagnosis of the investment process during 1990-2007,

applied investment policies, present and perspective, but also the analyzes at the macroeconomic and microeconomic level.

The first chapter deals with the theoretical and methodological aspects of the formation, accumulation, productive use and growth of the capital, and a range analysis and background of the knowledge about investments and tangible fixed assets. Considered to be the substance of economy functioning at the microeconomic level and the hub of modern macroeconomic theory, the flows of investments are defining for the processes of sustainable development and for the increase of the stock of fixed capital, and tangible savings from an economy, as a finality of capital investments.

The second chapter is devoted to analysis of the formation process of the capital at the micro and macroeconomic level. In a first phase, I presented the methods of formation and growth of the business capital and their implications on the economic and financial potential of the company. The presentation of all potential sources of existing capital, each with its own characteristics and implications in the economic management, as financing alternative which the businesses can use, depending on the specific conditions and target objectives, aimed at highlighting the growing importance of the capitals cost, highly influenced by the ratio of the owned and borrowed capital. The development of the financial market in the Romanian economy and its involvement in the process of formation and growth of the economic capital was another concern, which followed potentiating of the role of capital market and the lending in the sustainable economy capitalization.

Given that the Romanian economy remains poor in terms of the capital involved in the productive processes, I have addressed in the second phase, the analysis of the formation process and accumulation of capital at the macroeconomic level, this process being very important both for the short-term evolution of the national economy, and especially for the evolution and results in the medium and long term. In this part of the paper, I tried to capture the dynamics of capital accumulation in the Romanian economy after 1989, based on the major processes that have caused it, highlighting the consequences of meaning or none-meaning, through the analysis of the economic aggregates that the National Accounts System uses in our country. Obviously, I designed the research to the most important macroeconomic aggregates, aiming to capture not only the cause-effect relationships, but also some problems which are seen in various sectors of the economy and their impact on the phenomena's and socio-economical processes in our country.

At the macroeconomic level, I emphasized the existence of the interdependence between capitalization and gross formation of the fixed capital, in the sense that a proper capitalization cannot be conceived only by increasing the gross fixed capital formation, the latter demanding necessarily a

proper prior capitalization. In this respect, I analyzed the evolution of the gross formation of the fixed capital as a share in GDP, an indicator that measures the relative importance of investments in the development of national economy. Until 2005, this indicator varied between a minimum of 14.4% of GDP in 1991 and a maximum of 23.8% in 2004, which highlights the failure of the monetary and fiscal policies in stimulating the investments in capital in the years 1990 and 2005. Only in the years 2006 and 2007, gross fixed capital formation had a high share in GDP of 26.4% and 31.1% respectively, in agreement with the development needs of the Romanian economy.

Deepening the research on the macroeconomic level, I showed that the finance gross fixed capital formation by credits was poor and did not have a significant contribution to the capitalization of the Romanian economy. One of the main shortcomings of the lending activity has consisted in the fact that bank financings aimed especially the current consumption and activities (in 2007 and 2008, the share of loans of the non-financial corporations in the non-government credit was 53.8% and respectively 47.8 %), in this way, deepening more the disturbances from the fixed capital area. But the analysis of the non-government credit, in the period 2004-2008, determines us to support that this negative aspect starts to improve, manifesting an exacerbated tendency of growth of the non-credit companies in long term.

The evolution of the main macroeconomic aggregates led me to conclude that in the transition period, the capitalization found hardly the necessary financial resources in the Romanian economy, the private property being developed slowly, against the backdrop of a lack of internal funds, especially in terms of fiscal and investment policies that haven't encouraged the steady increase of the fixed capital.

Meanwhile, the dynamic of gross formation of the fixed capital show us that its drastic reduction prevented the economic growth in the 90s, moreover, the sharp decrease in the 1990-1993 period and the weak increases in the years 1995-1997 have generated the second Romanian economy recession. From comparing the dynamics of gross formation of fixed capital with that of the gross domestic product, results a main cause of the gross domestic product decline in the period after 1989, until 2000, and the industrial production decline, due to the reduced capacity of technology induced by compressing the investment rate. The investments were heavily influenced by the phenomena's of inflation and unemployment, and the intensity of these, the persistence of high rates of inflation representing one of the main causes of the investment decline rate, due to the increasing risk in the business environment.

Taking into account the realities of the Romanian economy, marked by a prolonged and traumatic transition to pluralist democracy and market economy, *the third chapter* of the work studies the dynamic investment process, as the basis of the capital formation, during the years 1990-2007. From this perspective, I considered necessary the global presentation and in structure of the investment potential of the Romanian economy, the disruptions which were manifested into the investment process, the results and shortcomings of this process, and some suggestions related to the reorientation of policies on investment priorities, formation and growth of capital and not only.

In the first part of the period concerned, there were noted two important phenomena's: on one hand, the decentralization of the investment process, which was consequently a drastic reduction of the investments and, on the other hand targets the investment acts towards the business area with minimal costs and important profits.

Boosting investment in the Romanian economy has been delayed by the stimulating economic policies of the aggregate demand by increasing the public expenditure, specific to the Romanian economic environment, but with effects in the sphere of short term development, and failure for a long time of a macro stability of the inflationary phenomenon. To these were added the fiscal and incentives policy and specific facilities, which have not achieved their purpose. For a long time, the force of attracting investors, both Romanians, and foreigners, has been reduced, major causes being the exaggerated taxation and high interest rates prevailing in the banking system.

Another process that influenced both the domestic investments, and the foreign ones, in the last eighteen years, was the privatization. Extension in time of the privatization process and the instability of the management teams has discouraged investment. The maintenance of a mixed economy, the coexistence of the private training system, represented mainly by small and medium enterprises with the state or mixed sector, represented by the major economic units, for a long period, was not able to provide over the national economy, the positive trend implied by the reform process in the first fifteen years. Instead, under the impact of economic policy measures, and especially fiscal, the major units have been decapitalized and devalued, so that their privatization has become difficult to conduct under profitable conditions for the Romanian state. Simultaneously, the private sector recorded after the initial effervescence period, the same process of regression and decapitalization. Financing the major investments through bank loans was not possible as long as currency has undergone a continuous process of depreciation and the banks charged very large positive real interests.

The analysis of data on net investments made in the Romanian economy, led me to their appreciation as insufficient in relation to the development needs of the Romanian economy. At the same time, the investment process has undergone marked changes during the years 1990-2007 and in terms of its structure, in the main branches of the economy. Was manifested a predilection orientation of the funds available for investments in specialized sectors in the production and sale of services (in 2007, the investments from the services and construction area represented 69% of total net investments in the economy), against the backdrop of the decline of those in the industrial and agriculture areas. Although this phenomenon is considered a negative on one part of the specialists, in my point of view, a change in the structure of the economy to mainly services is not a mistake. The same trend was observed in the Western economies, where the tertiary sector represents between 70 and 80% of all economic activities. I consider this trend as a first sign of development of the Romanian economy to a service economy based on knowledge and technology. This does not mean that should not be supported and encouraged the public and private investments in industrial fields, in which the Romanian economy has competitive advantages and their fructification in the European Union (e.g., supporting the regions with a strong traditional character of industries). Meanwhile, massive investments are needed in public administration, telecommunications, construction, which aim to build a complex infrastructure and transport networks, communications, energy and water supply, targets which I consider fundamental to sustainable develop the Romanian economy.

The study of gross investments in Romanian companies on size classes and types of property was done taking into account the creation and maintenance in time of some significative imbalances in the development of SMEs in territorial profile. The territorial distribution imbalances of these put its print on the investments made by the companies in the development regions of our country. Thus, a significant gap was created between the gross investments made by the local units of Bucharest-Ilfov region, where, in 2007, was achieved a figure of 40% of the total investments and the other regions, where the percentage varied between 5 and 10%.

The study of investments made by the active Romanian companies, according to the field of activity and size, showed that the micro-companies are those that respond most quickly to the needs of development of the economy. In their cases, the investments in the tertiary sector are the majority, exceeding 80% of the total investments made by this size category, while in case of large companies, the investments in the sphere of services do not reach 40%. The increase of the services competitiveness both on domestic markets, as well as on international markets is crucial for Romania

to benefit fully from its integration in the European Union and also for diminishing the disparities between the levels of development of national economy and the EU average.

In the research conducted was also required the analysis of financing sources of investments, both private and public, and highlighting the central role that has the financial market, through its components: the money market, the capital market and insurance market. In this sense, I tried to find out to what extent the capital market has contributed to financing the financial capital needs of real economy, compared to the money market and non-credit companies. From this point of view, I consider that the capital market should contribute in a greater proportion than before to finance long term investment activities, while the money market should finance the current business activities. Without challenging the positive evolution and achievements up to now, I consider that the revival and development of the two components of the financial market is a prerequisite to boost the investment process in the Romanian economy.

The current development, marked by overcoming the barriers between communities and emphasizing the phenomena of globalization and regionalization of national economies, is strongly influenced by the intensification of foreign investments. In virtue of this trend, in *the fourth chapter*, I considered necessary to stop on the issue of direct foreign investments. Considered to be the modern prize to stimulate the economic growth, with direct and immediate effects on the regional and social development, the foreign direct investments have become a priority for Romania also. They represent more than a mechanism of integration of countries in the world economy, acting as the binder of the productive systems of different nations. This chapter emphasizes the importance of foreign investments for the sustainable development of the Romanian economy, its capacity to attract foreign investors, aiming, primarily, the effects of the foreign investment evolution in recent years, on the accumulation of fixed capital process.

The final part of the thesis is dedicated to tangible assets, as main form to realize the investments made in the economy. At the macroeconomic level, the tangible assets relate to the material aspect of the fixed capital and are one of the essential components of national wealth. These acquired resources have a cardinal meaning, providing the essential technical support for developing the entire economic and social activities and to ensure a decent living. Their accumulation process in the Romanian economy has to be directed toward a future developing generating a high added value, propelled by the interest on knowledge and innovation and permanently directed towards the continuous improvement of quality of life of mankind in harmony with the natural environment.

The development needs of Romania and convergence insurance towards an economy based on knowledge, such as economies of developed countries in the EU, require maintaining a favorable business environment to intensify the capital investments for sustainable modernization of the country.

I consider that an investment rate (GFFC/GDP) exceeding 30% is absolutely necessary for the stimulation of the economic growth and faster recovery of development gaps from the countries with mature economies in EU. For this is necessary, first, a substantial investment effort aimed at upgrading the energy infrastructure, transportation and utilities, education and public health. These goals can be achieved by expanding the role of capital market and the establishing of new companies, partly capitalized through initial public initial offers, in which the state holds a minority pack and who aim to the realization, operation and maintenance of some infrastructure targets. These public-private partnerships are welcomed to accelerate the investments in the infrastructure.

The development of the financial market should target the increasing of domestic savings rate in the long term (at a level over 20%), savings providing one of the sources of financing of investments, by intensifying some measures such as:

- development of savings instruments, by creating a market on which can freely be traded government securities, public and corporate bonds and other investment instruments in the long term, on who individuals also have access;
- stimulating the investments in securities of open investment funds and other financial instruments and collective investment institutions;
- lending moderation of the population consume and stimulate the household savings through non-taxation both of interest on bank deposits, as well as gains on the capital market;

Internally, the tax measures which aim to stimulate the businesses investments are absolutely necessary. Of these, we support the non-taxation of the profits reinvested in investment projects aimed at increasing the technology and information level of the production processes (both from the goods production and from services), increasing the competitiveness of Romanian companies, rural development etc.

The growth of the investment rate can be achieved through full and effective use of the structural and cohesion funds allocated by the EU, which also lead to reducing the current account deficit.

Correlated with the current status of Romania, of member state of the European Union, which represents at the same time recognition of the efforts and a guarantee of economic and political

stability of the country, those described in the present paper give me a reason for optimism regarding the existing climate and future development of investments in Romania.