

## ECONOMIC GROWTH – THEORY AND REALITY

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**Abstract:** *As a rule, economic growth is associated with innovation, technological change, investment in "human capital". All of these factors ultimately lead to economic growth. This is measured by the level of macroeconomic results - GNP, GDP / inhabitant and GDP. This paper analyzes the main macroeconomic developments in the Eurozone and the European Union in the period 2015-2017, evolutions that help us to understand the economic growth outlook in this area and in our country.*

**Key words:** *economic growth, macroeconomic outcomes, productivity, human capital, investments.*

### INTRODUCTION

Economic growth is a concept that grinds both governments and ordinary people. According to most economics textbooks, it is defined as an increase in the capacity of an economy to produce goods and services, using a comparison between two given periods. Economic growth can be measured in nominal terms, including inflation, or in real terms, adjusted for inflation

### MATERIAL AND METHOD

Economic growth is determined by direct factors: increasing the active population, "investing" in human capital, increasing the volume of capital employed, technological and indirect changes: institutions (financial institutions, private administrations, etc.), government, etc.

The description of the economic growth is achieved with the help of the production function:

$$\text{GDP} = f(\text{work, capital, technical progress})$$

Economic growth models have been interested in economists since the classical period (Adam Smith, David Ricardo). Neoclassical models argue that the economy is stable, balance or self-riding. The Keynesian models and their descendants (neokeynesian) argue that in order to have a stable economy it is necessary to use macroeconomic policies, direct state intervention to achieve equilibrium and stimulate economic growth.

Economic growth brings many benefits to economic agents, of which [2]:

- Increasing the standard of living. The increase in the volume of goods and end-use services in a country is usually equivalent to a favorable change in consumption. Long-term economic growth will not only increase the quantity but also the quality of goods and services consumed.
- Poverty alleviation. Increasing production capacity generates more jobs and, therefore, more sources of income for households;
- Changes in consumption patterns. Economic growth has led in the last few decades in the mature market economies that part of the income meant to meet the lower needs to fall in favor of the one intended to meet higher needs (culture, recreation, communication, etc.).

However, economic growth, as the finality of the efforts made by state institutions, has its costs [1]:

-Pollution is one of the major costs of economic growth in the twentieth and twenty-first centuries.

-Allocation of resources for growth (opportunity cost) Consumption of goods and services should be reduced nowadays so that future consumption will be higher. In other words, only investments generate future revenue, and they can only grow on account of the reduction in consumption.

-Personal and social costs.

### RESULTS AND DISCUSSIONS

As regards the EU Member States, the economic recovery after the 2008 economic crisis has been manifested in all Member States, but has been slow, being supported by temporal factors (oil price slump, flexible monetary policy and the relatively low foreign currency value of the euro ).

At the EU level, for the 2015-2017 period, growth was supported by the following positive aspects: better employment with beneficial consequences on real disposable income, more relaxed lending conditions, increased domestic demand in most Member States in the area The increase in economic activity across the EU in 2016 and 2017, increased investment to some extent, as a result of increased household incomes, and improved profit margins for corporations.

According to forecasts, the real GDP of the euro area will increase by 1.9% in 2017. For the EU as a whole by 2.1% in 2017.

**Table 1**

**The main macroeconomic and budgetary developments in the EU  
over the period 2015-2017**

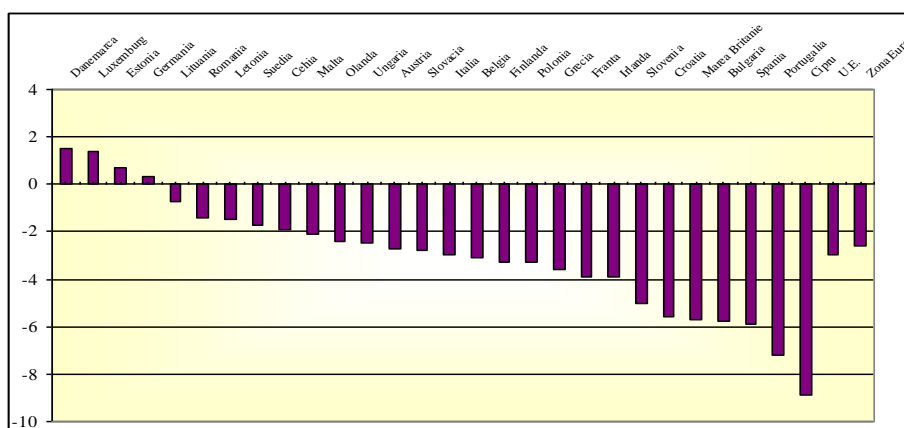
		2015	2016	2017
GDP-%	Euro zone	1.6	1.8	1.9
	UE-28	1.9	2.0	2.1
Unemployment rate-%	Euro zone	11.0	10.6	10.3
	UE-28	9.5	9.2	8.9
Budget deficit-%	Euro zone	2.0	1.8	1.5
	UE-28	2.5	2.8	1.6
Gross Debit-%	Euro zone	94.0	92.9	91.3
	UE-28	87.8	87.1	85.8

*Source: Previziunile de toamna ale C.E. 2015*

Analysis of the budget deficit in the United States Highlights the following:

- in 2014 Denmark. Luxembourg. Estonia and Germany recorded a surplus.

-the lowest deficits as a percentage of GDP were registered by Lithuania (0.7%). Romania (1.4%). Latvia (1.5%). Sweden (1.7%) and the Czech Republic (1. 9%).



**Figure 1** ESA Budget Deficit 2011-2014

Source: Eurostat

- fourteen states had deficits equal to or above 3% of GDP: Cyprus. Portugal. Spain. Bulgaria. the United Kingdom. Croatia. Slovenia. Ireland. France. Greece. Poland. Finland. Belgium and Italy.

**Table 2**

**Statement of Budget Income and Expenditure**

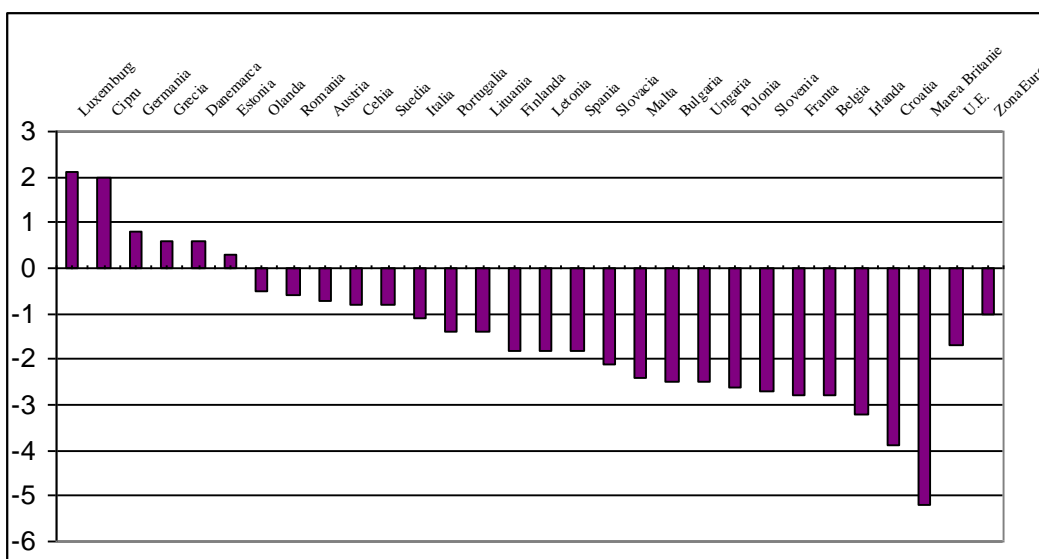
	Budgetary income-2014 % in PIB	Budgetary Expenditure-2014 % in PIB
Hungary	47.4	44.9
Slovenia	44.8	49.8
Poland	38.8	42.1
Romania	33.5	34.9
U.E.	45.2	48.2
Euro Zone	47.0	49.5

Source: Eurostat

With in the EU member states. Romania ranks last in the share of budget revenues in the domestic product. respectively 33.5%.

As regards the share of budget expenditures calculated as a percentage of gross domestic product. Romania ranks 34.9% on the penultimate place in EU member states.

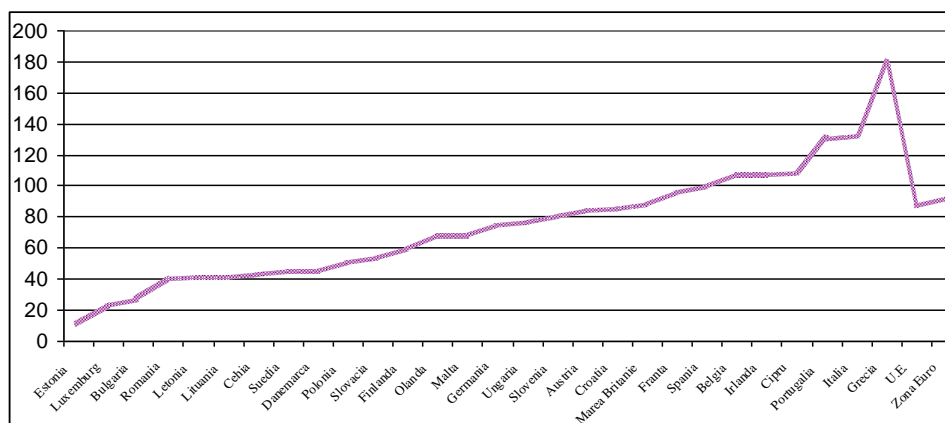
Romania's structural deficit for 2014 is 0.6% of gross domestic product. one of the lowest deficits registered in the EU member states.



**Figure 2 Structural Deficit 2014**

Source: Eurostat

Analyzing public debt allows us to draw the following conclusions: At the end of 2014. Estonia. Luxembourg. Bulgaria. Romania (39.9%). Latvia and Lithuania recorded the lowest percentages of GDP .



**Figure 3 Government Debt 2014-% of GDP**

Source: Eurostat

The highest percentages of debt were recorded in Greece (178.6%). Italy (132.3%). Portugal (130.2%). Cyprus (108.2%). Ireland (107.5%) And Belgium (106.7%).

Analyzing the Contribution of Components to GDP in Romania. the situation was as follows:

**Table 3**

Branch contribution to GDP growth-%		
	2015	2016
Agriculture. forestry. fishing	-0.1	0.1
Industry	0.7	1.2
Construction	0.4	0.4
Services	2.2	1.8
Net taxes on the product	0.5	0.5
<b>GDP</b>	<b>3.6</b>	<b>3.1</b>

Source : INSSE-Anuarul Statistic al Romaniei 2014-2015

Between 2014 and 2019. Romania committed itself to comply with the golden rule of public finances. ie the volume of investments is higher than the budget deficit. given their effect on the medium and long term economy.

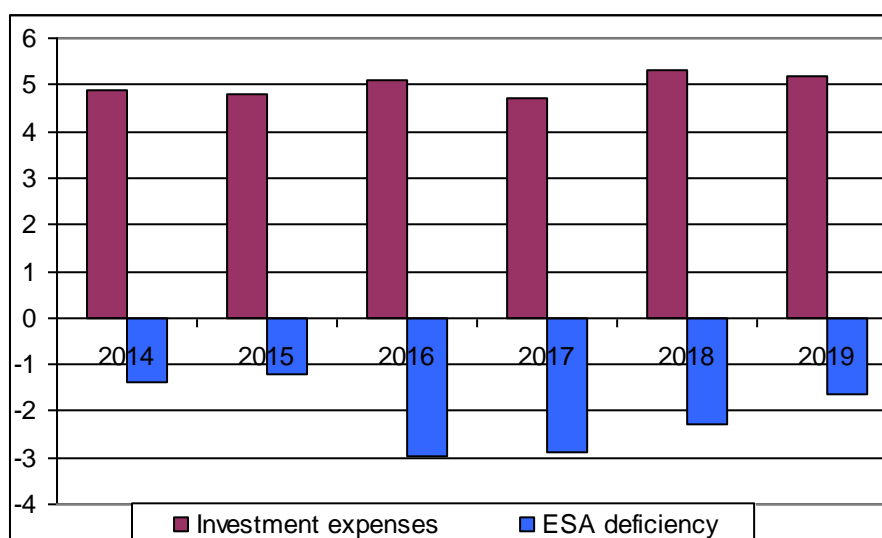
**Table 4**

**Evolution of budget deficits and economic growth 2011-2019**

Years	Real Growth of GDP	ESA deficit	Structural deficit
2011	1.1	-5.4	-3.0
2013	3.5	-2.2	-2.2
2015	3.6	-1.2	-1.2
2017	4.2	-2.89	-2.86
2019	4.7	-1.63	-1.87

*Source: Previțiunile de toamna ale C.E. 2015*

Investments supported by national and European funds. as well as the measures contained in the new Fiscal Code, can encourage the business environment to invest.



**Figure 4. The evolution of budget deficits and investment expenditures in the period 2014-2019-% in GDP**

*Source: Raport Guvernamental 2013-Previțiuni privind evoluția PIB*

The increase in budget allocations for investment will be reflected in an increase in the share of gross fixed capital formation in the public sector in the gross fixed capital formation from economy from 19.4% in 2014 to around 20% in 2019.

Future economic growth (until 2019) will be achieved with the following factors:

✓ Internal demand will be the engine of economic growth. and on the supply side. an improvement in economic activity is expected in all sectors. especially in industrial branches with high export potential and in the construction sector. which can make use of the existing infrastructure.

✓ The growth rate of gross fixed capital formation will increase.

✓ Expenditure on final consumption of the population will increase..

✓ Measures are established to ensure a better participation in the labor market (being one of the country's recommendations for Romania). will result in an increase in the number of employees. together with the reduction of the unemployment rate.

✓ Financing of some state aid schemes financed by multiannual programs.

These schemes will have the following impact:

- Creation of new jobs directly at the level of beneficiary companies and indirectly. locally. at the level of suppliers / beneficiaries of goods and services;
- Contributions to the consolidated general budget and local budgets as a result of the achievement
- Investments;
- Contributions to Romania's import / export balance (much of the production made in Romania)
- The consequence of these investments is for export;
- Know-how industrial (high technology complex processes);
- Increasing the living standard of the population.

### CONCLUSIONS

- A higher standard of living can only be achieved through higher production of goods and services. Economic growth is precisely the increase in economic activity at macroeconomic level.

Economic growth = synonymous with real GDP growth over a longer period of time.

-Growth growth is equivalent to increasing production capacity at national level is a result of the investments made.

-Existence or non-existence of economic growth must take into account the long-term trend of GDP; Economic cycles - which are fluctuations on shorter terms than the trend. random events - favorable or unfavorable (usually unfavorable) that can intervene independently and inevitably in the conduct of economic activity.

-The long-term economic growth sources are considered:

- the occupied population and the level of qualification;
- productivity of work at individual and group level;
- the level and degree of modernization of fixed assets. etc.

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