

Origin and continuity in spatial development: The case of Romania

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Abstract. *We demonstrate that from a historical perspective, spatial development involves elements of continuity. Although the anatomy of an economy is the result of an economic culture that is never ideologically free, the culture does not permeate everything. Rather, a time-resistant hard core consisting of sentences that define efficacy and rationality exists. Some former socialist countries have learned this lesson and have managed the transition to a market economy with positive results and without economic spasms. But Romania was ignorant of the lesson of continuity in spatial development in the last quarter of the century, significantly hindering its economic growth.*

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1. Introduction

Spatial economic development was and has remained an issue in economic theory and policy. Invoked by different sociopolitical regimes, spatial development has sought answers to similar questions, subordinated to the main idea of a balanced development of a country's regions. The answers were strongly influenced by the intervention of two completely different institutions in the mechanics of this relatively common objective: centralized planning in socialist economies and the free market in open, capitalist economies. At the same time, what motivates and adds meaning to this analysis is that neither a 100% planned economy completely outside the market nor a market economy in which planning, regardless of form and content, is absent can be found in reality. On this note, the scientific interest should be on an analysis that highlights the fact that certain mechanisms or institutional arrangements – technical in themselves and ideologically neutral – such as the plan, market, cooperatives, etc., although related to the logic of the economic dynamics of all time, can lead to positive (or negative) results depending on the color of the economic policy that claimed and integrated them.

The present analysis focuses on how this institutional arrangement, called “spatial development”, took effect in the two macro management systems: capitalism and socialism. The largest portion of the analysis investigates how spatial development reveals elements of continuity during Romania's path from one system to another. This is our *general objective*. We also follow up with some *secondary objectives*, attempting to answer such questions as

- How scientifically grounded were the concerns regarding spatial development in Romanian socialist economy?
- Did the decisions related to the spatial allocation of resources target only the micro- or macroeconomic environment or both?
- Were personal interests present in the so-called “rational” scheme of the territorial allocation of production forces?
- Did the socialist regional development of Romania, allegedly scientific, bring about more individual prosperity than what potentially could have been obtained in a free market economy?
- If Romania remained capitalist, not knowing the socialist experience, would our analyzed company survive successfully?

When seeking to answer these queries, we also intend to determine, in resonance with the title of our article, whether there is something of value retained from the technical and institutional heritage of the socialist spatial development and perpetuated in the new free market economy of Romania. We start from the following *assumptions*:

- the technical-material basis of a nation is not related to the ideological imprint;
- the criteria that define the rationale of territorial location of a firm are related to both the mathematical logic and economic efficiency, and are not related to the ideological color;
- a firm that started and efficiently operated under the market economy, met the efficiency criteria under the planned economy, there are no reasons to vanish under a re-established market economy, within the same territory.

The remainder of the article is organized as follows. In Section 2 we summarize the literature on spatial development. The rationality of spatial development within socialist and capitalist economies are exposed in Section 3 and Section 4. In Section 5, we compare the spatial development belonging to both experiments. Section 6 presents the case study from our analyzed country and Section 7 concludes the discussion.

2. Brief literature review

From a historical point of view, contributions to the construction of a location theory have revolved around the ideas of von Thünen, Weber and Lösch. They highlighted the importance of transportation costs in deciding where to locate economic activities. While von Thünen (1826) dealt with an ideal, isolated state and did not include industrial location in his analysis, Weber (1909) tackled the location problems of a competitive indivisible plantation by taking into account transport costs to direct the inputs from their sources and the outputs to existing markets. The author showed that one can obtain the optimal location by minimizing the total cost of transport. Lösch (1940) made the first attempt to introduce spatial elements to the general equilibrium theory of markets. The conclusion of his analysis was that the best option within the scope of action of a manufacturer that minimizes transportation costs will have a hexagonal arrangement, a geometric shape that will contribute to a complete coverage of the space. By overlapping hexagonal networks with a common center and a maximum number of intersections with other production centers to minimize transportation costs, a certain hierarchy of industrial centers was obtained, which Lösch called “central places”.

Following von Thünen's thinking, Marshall (1920) identified three sources of profit regarding industry localization, known in the literature as the “Marshallian trinity” of agglomeration economies: a local pool of skilled labor, local supplier linkages and local knowledge spillovers. Later, Hotelling (1929) investigated the localization problems that manufacturers face in the field of spatial competition, remedying a gap in Weber's model, i.e., the disregard of the role of competition. Another notable theorist in the field, Christaller (1933), focused on determining the size, number and distribution of cities in an area using some basic assumptions about consumer behavior. It is to him that we owe the concept of “nested hexagons”, which represents the best shape of the edges of a complementary market. The hexagon areas resulted from structuring the space starting with marginal returns and urban agglomeration. His merit is to have set up the study of cities as systems rather than simple hierarchies or single entities, done before. Alonso (1964) developed a spatial equilibrium model, assuming, as von Thünen, a homogeneous space but replacing the market with a business center where residents have to commute with a certain cost to find work. Despite some imperfections related to the application of his model in practice, Alonso managed to reproduce reality regarding land use and prices in urban areas, generating a vast literature that culminated in a model of multicentric cities (Fujita, 1989).

In the meantime, spatial theory has developed exponentially, being aided in recent decades by the modeling of market structures and transportation costs along with the increasing processing power of computers. This has occurred in countries with old and fully-fledged market economies as well as former socialist countries that have embraced the free market system after 1990. In this regard, the literature in this field owes much to the works of Paul Krugman who, since 1990, has focused on economic geography and localization-related problems in particular. His contribution in this field represents the cornerstone of the new economic geography. The “center-periphery” model of Krugman (1991) is based on labor dualism and operates with three basic parameters: the share of expenditure on industrial goods, the intensity of preference for variety in industrial goods and trade or transportation costs between regions. By performing simulations with different trade costs, he observes fundamental changes in the model in terms of balance and system stability. His theory generated a popular trend in the field of agglomeration economies, which grew exponentially in the last decade of the twentieth century, culminating in the work *The Spatial Economy: Cities, Regions, and International Trade* by Fujita, Krugman and Venables (1999).

Furthermore, the scientific literature has been enriched by the contributions of Baldwin et al. (2003); Fujita and Thisse (2003); Duranton and Puga (2004); Malmberg (2009); Glaeser and Gottlieb (2009); Ottaviano (2011); Potter and Watts (2011); and other researchers who have sought to respond to pragmatic issues of the real contemporary economy, such as urban agglomeration, trade policy-making, globalization and integration.

Also, regarding a particular case, the Romanian one, a series of theoretical and empirical contributions regarding the new economic geography were brought by studies such those of Clipa, Pohoățã and Clipa (2012), and Pohoățã and Clipa (2013) which emphasize that polarization is a process of strengthening spatial concentration and imbalances. The studies of Moga and Constantin (2011), Goschin et al. (2015), Russu (2016) support the idea that in Romania, regional specialization and geographical concentration are two phenomena that may have divergent evolutions. The paper of Trăistaru, Nijkamp and Longhi (2002) comes to confirm the underlying hypothesis of the new economic geography, i.e., in Central and Eastern Europe, industries are located where productivity factors are abundant, and the costs are low.

Going back and following the examination of the available literature on spatial development issues, we can conclude that these concerns were not unique to the field of market economies, characterizing planned economies as well, albeit in another form. From the existent papers, we find that regionalization as a process of dividing a territory into regions was not identified with a “smooth” development through the territorial distribution of production factors – a phrase spread in the planned Eastern European economies until 1989. At the time, the followed trends were a balanced proportionate development of branches and sub-branches, macroeconomic equilibrium and *total* employment of the labor force. Regionalization came later, towards the end of the 1970s,

and could be found in the concerns of the “optimal development models” of counties, towns and villages (Dobrescu, 1976; Kantorovich, 1967; Kornai, 1974; Novozhilov, 1969). The term “spatial development” was not employed, but contingent on this objective were all policies of industrialization, cooperation, the building of housing, cities, roads, dams and irrigation canals, and drainage. The regional problem – i.e., the concentration of industry and, thus, other non-agricultural sectors in some geographical areas of the country, while other areas remained agrarian, underdeveloped or less developed than industrialized regions – was recognized by some authors as one of the most complex problems of industrialization (Blaga, 1983; Totu, 1987).

In almost all socialist countries there were economists who endeavored to remove economic research focused on optimal territorial distribution of industries from the logic of the totalitarian communist ideology. Thus, Kalecki (1943, 1972) drew the sketch of Polish development reasoning not just in physical terms, after the fashion of the time, but also in monetary terms. Kantorovich (1967), a Nobel Prize winner, used price and cost analysis following the Marx-Ricardo-Marshall tradition. Novozhilov (1969) and Nemcinov (1965) considered both differential and opportunity costs. Lange (1964) thought of an optimal macroeconomic planning system, whereas Kornai (1974) wrote his *Anti-Equilibrium* to highlight the economic imbalance issues in this part of the world. Finally, Constantinescu (1973) became a dissident because in his work, *The problem of contradiction in the socialist economy*, had the courage to emphasize also logical inconsistencies within the territorial allocation of industry.

Optimizing the economy on the whole represented the core of theoretical concerns in socialism. The essence of this criterion was interpreted differently, as some economists, such as Boiarski (1962) and Kornai (1974), denied its very existence and placed the issue solely in the field of economic policy. However, other economists acknowledged the objectiveness of the optimization criterion of the socialist economy, with some differences in terms of its content. A first group of views took into account the laws of extended socialist reproduction, and “maximizing the output as the final product, national income or net income” (in its physical expression and as a value) was considered as a socioeconomic criterion (Kantorovich, 1967; Lange, 1964; Minc, 1966). Other opinions based on the requirements of the general law of economy of labor considered “minimizing the total costs of social work” as the sole economic criterion to achieve the desired effect (Novozhilov, 1969).

Based on the requirements of the fundamental economic law of socialism, “the steady growth of living standards”, the most popular trend, considered as a requirement of the socioeconomic criterion “maximizing the means of meeting the material and spiritual needs of society members” (Dobrescu, 1971; Constantinescu, 1973; Sandu, 1973; Blaga and Manea, 1977; Băloiu, 1981). The greater attachment to the latter theory was explained “by the very logic of building a socialist society, accelerating the overall progress of our society – raising the material and spiritual welfare of the working people, a more complete manifestation of the human personality” (Totu, 1987, p. 459).

Contrary to the Pareto optimality, which focuses on the mathematical formalization of the requirements of the economic optimum in terms of a spatial and timeless economy, neglecting the social and ethical coordinates involved in the process of optimizing welfare, the socialists were dedicated to the fundamental objective of raising the living standards, improving the quality of life of the entire nation. Consequently, the factors of optimal development in the socialist society were engaging the entire population of working age in the development of useful activities; maximizing the productivity of social labor, minimizing production costs, especially the materials for each unit of comparable output unit; using all national resources with maximum efficiency; and promoting socialist ethics and equity in the distribution and use of the consumption fund.

Summarizing, spatial development has been a serious concern in both the West and the East. We are interested in obtaining a *historical perspective* of the problem to observe those dimensions that give continuity to spatial development. This perspective has yet to be explored, and we are focusing our research on this niche.

3. The “rationality” of the territorial allocation of production forces in planned economies: the case of Romania

In planned economies, economic calculus was performed in physical units per capita – measurable units, unlike prices, which are relative. Strumilin (1967) highlighted the virtues of economic calculus in physical terms and considered it necessary to divide the national income of the former USSR into the so-called “portions”. In his view, planning had to begin from production endpoints, and not from initial possibilities, by following closely the political and social criteria. However, it was impossible to make comparisons with the Western world, which only used relative values expressed in prices. By overestimating physical quantities and minimizing values, the system was led towards a deadlock.

The optimal territorial distribution of production factors fell under sign of solving *the regional issue*. The origin of economic disparities resided in the industrial concentration found only in certain regions of the national territory (usually in areas that provided higher economic efficiency), while other less attractive geographical areas were below the national average due to their socioeconomic conditions and residents’ lives, the employment level and the use of the labor force, the income/expenditure ratio and the level of education and training. This resulted in a migration of the population, especially young males, towards developed areas, leaving behind an aging and feminized population. The worsening of demographic structures – decreasing fertility and birth rate – has hindered the socioeconomic progress of these latter areas, which were characterized as depressive and peripheral. The problem, recognized at the time as one of the most serious economic, social and political issues required prompt solutions (Totu, 1987; Blaga, 1983).

It was thought then that the development of decisive branches of industry (bearers of scientific and technical progress), the increase of the industrial activities within other sectors of the economy, the growth of the industry and its share among the active population would ensure the expansion of these sectors in the geographical areas that were lagging, thus, reducing economic disparities. The problem of reducing regional disparities concerned many economists in socialist countries, and the conclusions they reached were similar (Probst, 1971; Blaga, 1974; Telepko, 1965). In summary, it was argued that the resolution would take place towards the end of the stage of industrialization and after its completion. And, moreover, this was circumscribed to the objectives of avoiding massive population migrations, achieving high capitalization of all economic resources and meeting the material needs of citizens. In short, the resolution implied the rational allocation of productive forces, particularly industrial forces, throughout the country.

Unlike capitalist states, where regional disparities were expected to diminish as a result of the free market, for socialist decision-makers, the rationality of territorial allocation of production factors was made predominantly under the imperative of social or political requirements, without neglecting economic efficiency.

Thus, the *efficiency criterion* in planned economies – defined as the reduction of overall production costs – did not contradict the idea of efficiency within the location theory developed by market economies. Some objectives were consonant with economic efficiency in general and not just with the “socialist efficiency”: market and supplier access for industrial centers, concentrating industrial units cooperating in production in the same locality or geographical area and then grouping them into industrial sites, sharing national energy systems, complex watershed management, environmental protection, etc.

The *sociopolitical criterion* came to complement the efficiency criterion – the latter being considered insufficient for industrial development across all geographical areas – and, along with the efficiency criterion, “it was able to ensure the development of all economic areas and to create relatively equal conditions of employment, as well as to raise the material and spiritual life for all inhabitants of the country” (Totu, 1987, p. 55).

The harmonization of the economic efficiency criterion with the sociopolitical one was the core of the development theory and policy in socialist Romania. Although the goal of developing all counties and cities of the country did sometimes cause cost-effectiveness problems, the social criteria – avoiding migration from less industrialized areas towards developed ones – and political criteria – the presence of the working class throughout the country, raising the quality and efficiency of political-ideological education – were considered more important.

The concerns about Romania's spatial development culminated in the State National Plan in 1976, which explicitly aimed to reduce development disparities, particularly those of an industrial character, between counties (Popescu, 1994). In the view of the Romanian

Communist Party, the territorial distribution of productive forces by industrializing counties, cities and municipalities, had several facets:

- *economic*, as industrialization was viewed as the only means of utilizing natural and labor resources in less developed areas;
- *social*, in that the distribution of productive forces throughout the country aimed at a better distribution of the final income and, consequently, social homogenization and an increase in living standards;
- *political*, as a fair industrial distribution assumed the presence of the working class in all counties, thereby achieving a key objective of the socialist policy, i.e., to strengthen the presence of this highly important social category.

The resolution for the “rational” territorial distribution of the country's industry, known in the economic writings of those times as “a unitary and extended perspective on the territorial distribution of productive forces” (Blaga, 1983, p. 125), was considered within a five-year approach as part of the evolutionary development of the economy. Actually, during the 1966-1970 five-year plan, the “new” administrative-territorial division of the country was performed. It was meant to provide intensive development of geographical areas lagging behind as well as a widespread participation of the local administrative state authorities and citizens in the local leadership of socioeconomic activities (The 9th Congress of the Romanian Communist Party, 1965). In the interval 1971-1975, industrialization grew in the less developed counties, including the newly created municipalities and county capitals (The 10th Congress of the Romanian Communist Party, 1969). The years between 1976 and 1980 were devoted to creating an industrial base in the counties that had previously been deprived by imposing a mandatory minimum volume of industrial production (Ceaușescu, 1974). The 1980-1985 five-year plan, through the 12th Congress of the Romanian Communist Party, was centered on the development of the small industry, which was designed to capitalize underused female labor, especially in rural and small towns, as well as the local resources of raw materials (Ceaușescu, 1979).

The pursuit of industrialization throughout the country caused a series of negative effects, bringing forward several peculiarities in Romania's spatial development process. First, the county town was established in the largest city in the county, which usually encompassed more than 50% of all economic activity in the area. However, Romania did not have to address the problems of large conurbations, except for the Bucharest metropolis. Generally, small towns had a monoindustrial profile set without much relationship to the characteristics of the area, which contributed to a decrease in efficiency and an increase in the number of acute social problems. Economic development was made on egalitarian criteria, failing to create specialized industrial structures; on the contrary, counties acquired an amorphous and highly diversified industrial profile. Consequently, in each county, there were significant economic disparities both between large urban areas and small cities and between urban and rural areas.

4. The rationality of spatial development in the market economy

The neoclassical theory of economic growth, the theory of polarization and the new economic geography seek to elucidate the role of the market in territorial location. The proponents of the new economic geography - a corollary of the first two approaches - have sought to explain why economic activities emerge and develop in one place rather than another, and how a region can become, through a cumulative effect and from an arbitrary start, more competitive than another due to increasing returns allowed by the spatial concentration of activities (Krugman, 1991; Fujita, Krugman and Venables, 1999; Fujita and Thisse, 2003).

Whereas neoclassical economists argue that economies characterized by similar structural features tend to register a convergence of incomes, the new economic geography (Krugman, 1991) provides some justification for the lack of convergence. This refers to the neoclassical term *constant returns to scale*, which advances the idea that a region with twice the factors of production will produce twice as much. In fact, producers register fixed costs and increasing returns to scale, which determine them to locate near major trade markets to benefit from economies of scale and lower transportation costs. Additionally, on the labor market, workers are attracted to areas with high productivity, where wages are higher, resulting, thus, an increased employment and productivity.

This trend of concentrating economic activities in already crowded areas (*center*) based on centripetal forces (supplier linkages, knowledge spillovers) is weighed against the contrary trend based on centrifugal forces (immobile factors, rentals/commuting, congestion), which direct economic activities towards the *periphery*. The agglomeration of activities in a region is a prerequisite of economic growth in that region, attracting factors of production and further enhancing agglomeration. Individuals move to take advantage of the higher living standards in higher-productivity locations. By default, economic activities intensify in wealthy areas, which, through economies of agglomeration, in turn leads to a further increase in productivity, causing an increase in the population density through migration.

Consequently, within a country, economic regional disparities are widening as a result of people migrating towards wealthier areas. However, this process of economic and workforce relocation cannot continue indefinitely, as rising housing prices is one of the factors reducing congestion in such regions. In addition, localization decisions produce externalities for other individuals, either negative (traffic congestion, increased pollution) or positive (benefiting freely from the research and development process).

The state's involvement in the spatial development policy is justified precisely by reducing these externalities. Efficiency arguments for policy-makers who seek to divert the activities towards more productive locations are based on "non-linearities" in how the net benefits (productivity benefits minus compensation costs) change according to the size of the city. However, for those arguments to serve as a clear justification for direct intervention through spatial policies to redistribute activities in the areas with lower

productivity, it is important to know how these positive and negative externalities balance in practice. Unfortunately, evidence concerning the prevalence of positive externalities over negative ones is far from conclusive. It is impossible to accurately measure those costs (congestion, pollution, infrastructure, etc.) that reduce productivity benefits in crowded cities, as there is no information on the quantification of net benefits or their “non-linearity”. Therefore, spatial policies cannot be justified by productivity advantages. There are three gaps concerning the spatial policy (MIER, 2009): there is a lack of sufficient information on the functioning of economies of agglomeration, compensation costs and net benefits cannot be accurately measured, and it is unknown whether economies of agglomeration determine spatial policies to encourage or limit the spatial concentration of economic activities.

The market logic of spatial development is circumscribed predominantly to competitiveness interests: regions are configured as centers of economic growth and improved living standards, as governance, organization and decision-making cores. Inside these regions, urban and industrial agglomerations are recognized as centers of economic activity and thus sources of competitiveness.

Regarding *competitiveness reasons*, spatial development concerns revolve around the criteria used to set the boundaries of development regions. It is a common opinion that competitive development areas emerge from a particular development context, which in turn is explained by the twin concepts of *identity* and *functionality* (Cojanu et al., 2010). While the former refers to an identifiable common denominator for the development area, the latter is a functional model of territorial evolutions that influence the temporal and spatial development of growth.

Moreover, as suggested in studies conducted at the EU level (ESPON, 2006), there are no clear boundaries between competitive areas, as economic spaces appear in various forms within spatial and temporal boundaries; spatial boundaries because the development context is defined by a combination of arbitrary geographical factors, such as distance, decision centers and value chains, and temporal boundaries because the context is a historical depository of some tangible common traits, such as traditions, beliefs and feelings of common belonging.

Thus, development can be visualized more realistically in spatial configurations of multiple linkages in which growth opportunities are self-sustained, namely, in independent economically viable areas. Spatial development itself called on new terms such as *economic space optimal competitive areas* or *sociopolitical space*, referring to functionally integrated territories that allow maximized benefits for their residents. The amplified concerns of specialists on delimiting inhabitable areas aimed at promoting economic growth together with their competitive development. Within EU policies, this concern is underlined by pairing two key concepts: *cohesion* and *competitiveness*.

In the European context, regional policy aims to reduce economic and social disparities between Europe's regions and increase population welfare. As the economic and

monetary integration is deepening, the European regional policy has undergone important changes. Both successive reforms of economic and social cohesion and decisions to increase its funding have been guided by negotiations on other European issues related to budget, expansion and integration. The EU's expansion into Central and Eastern Europe placed the future of cohesion policy and its reform amid the debate entitled "widening at the expense of deepening". The new expansion stage has shaken the pace and orientation of the European regional policy, amplified also by the globalization trend that the Union is currently facing. A need for a reconfiguration of economic and social cohesion policy for the period ahead was thus required.

The spatial development issue is addressed by the Leipzig Charter on Sustainable European Cities (2007), which highlights the importance of strengthening coordination at local and regional levels. The aim is to establish, at regional and metropolitan levels, a balanced partnership both between cities and rural areas and among small, medium and large towns. The focus is on promoting a balanced territorial organization based on a European polycentric urban structure.

Concerning the competitiveness criterion, both globalization and regional integration have input in spatial development. National spatial policies cannot be designed independently of the regional integrator block or the interests of major world powers - developed countries, international institutions and multinational companies.

The rationality of spatial development in Romania after the fall of communism must be weighed within this context. To comply with the requirements of EU accession, Romania had to prove the existence of an appropriate legal framework, a territorial organization similar to the community's, and programming, administrative, financial and budgetary capacity.

Unfortunately, the eight Romanian development regions created in 1998 failed to take root in the public consciousness because of the failure of the regional development policy to reduce regional imbalances and the collective significance of historical provinces. Their structure was based on the functional complementarity of the counties and not on their homogeneity, with intraregional disparities being greater than interregional ones. Their configuration only partially overlapped historical regions (Banat, Oltenia), as the boundaries of some regions separated counties with a long tradition of regional trade (counties in southern Moldova are more related to the central and northern counties from the same region than to those in Dobrogea, and the boundaries dividing Transylvania into two regions correspond to areas of maximum concentration of economic and demographic flows). The role of historical provinces in the process of territorial reconfiguration is also felt through the territorial characteristics of the urban system. This is considered to be the result of the generation of towns located within a regional entity with strong historical identity (Ianoş, 2007). Traditional Romanian regional capitals – Iaşi, Timișoara, Cluj-Napoca, Bucharest, Constanța, Craiova, Galați and Braşov – are currently considered development poles. Their regional spheres of influence were

strengthened over time despite efforts in 1970-1990 to develop cellular county systems centered on the county seats.

For these reasons, the artificial character of the regional development pattern limits the regions' viability as potential administrative structures. They remain only with the role of the territorial, statistical and implementation units of regional development policies. The strong position held by regional capitals within territorial structures and within the hierarchy of regional identity elements could have ensured their coordinating role in the process of regional development and could have more easily imposed the new development regions in the public consciousness.

5. Market logic versus planned logic in spatial development

A comparative perspective of the two philosophies on spatial development requires synthesis. By condensing the literature, several aspects can be noted:

On one hand, in the system of planned economies, spatial development is only part of a mechanism designed in advance by the leading political force, which sought a balanced and harmonious development of the national economic territory. The concepts of macroeconomic dimension, full employment and social homogenization provided this concept with consistency. The statehood and national character of this development were highlighted, once again, to offer support to the philosophy according to which all consumed energy had to serve the principles of autonomy and sovereignty. The socialist economic and political integration was not absent, but because of its normative, asymmetric character imposed by the Soviet Russia, it created side effects. "Satellite countries" have sought to protect themselves under the shield of "multilateral" national development. In other words, they tried to create and develop an economy that was not missing any parts. Within this philosophy, the territorial arrangement of production, technical, material and human factors was disguised as "socialist rationality", according to which the individual and his well-being were not removed from the analysis but were not its starting point, either. Right from the start, the all-knowing party has made decisions instead of the individuals, making them "parts" of the national economy: industry, agriculture, trade, services, etc. The party wanted the individuals to be engaged in economic activity to make them earn a living and become loyal. Unemployment was missing from the official vocabulary and calculations. If such calculations were included in the optimization models of economic development, that was all the better. Communist parties used to build a façade by quoting important names and their academic findings, but the truth is that their objectives had little to do with scientific conclusions.

Analyzed in itself, "socialist rationality" did not seem to be at odds with logic and efficacy. Proximity to raw material sources and transport routes; the need for a workforce of a certain age, social class or gender; and the need for marketplaces are among the criteria of rationality acknowledged beyond time, space or ideology. The prevalence of some social criteria under the pretense of "social homogenization" failed to cancel out

the effects of the economic criteria. In itself, there is nothing objectionable in a deciding factor's intention of wanting a balanced development of regions within a country by removing social imbalances and the sources of serious economic disparities. Only the artificial and forced alignment to a common denominator is reprehensible. If the results of applying this concept have been perverse, the causes must not be sought in the technical criteria, which were the only ones that were truly rational. The annulment of the entrepreneurial spirit and the sense of direct responsibility resulting from it, which included the decision to locate a business in a certain economic space, the lack of openness to international competition and the collective management of competition by the “working class,” can better explain the failure of a “socialist industry”.

On the other hand, the rationality of spatial development in a market economy rests on the common ground of balanced development between the regions and areas of a country. The globalization and integration of large areas reduce but do not negate the importance of statehood or nationality as factors of optimal spatial development. The free market philosophy turns the entrepreneur into an initiator of spatial development. When choosing the territorial location of his business, the entrepreneur considers validated criteria: minimum transportation costs, employment, maximum productivity, a marketplace and other conditions that ensure maximum competitiveness. National political factors or supranational factors, in the case of an international integration, are absent. Their intervention remains of an institutional nature, establishing standards and best practice models that lead, through private initiatives, towards a balanced development of the regions belonging to an economic space. The interests of the beneficiaries of such developments and their welfare cannot be ignored. Beyond these interests, any development, including a spatial one, does not make sense. The economic development optimum considers individual interests both as a premise of departure and an endpoint. The free market allows individual interests to become compatible with the macro, social ones. Its “native” immediateness as well as its known imperfections are adjusted by the “visible hand” of the state, which is authorized and qualified to emit rational national rules and to claim obedience to these rules. The imperative of a multilateral development becomes obsolete. Specialization and international division of labor configure the anatomical structure of each area. Furthermore, the criteria for maximum efficiency in the exploitation of production factors (material or human) are vital. Sustainable development has been a conceptual and factual example for almost half a century. While paying attention to the spatial dimension, sustainable development clearly shows that without positive consequences in the social area, economic development is meaningless.

In short, the comparative analysis of planned and free market logic highlights that in the attainment of a spatial development optimum, common or specific criteria were taken into consideration. Table 1 provides such a comparison.

Table 1. *Determinants of optimal spatial development*

<p><i>In a planned socialist economy</i></p> <ul style="list-style-type: none"> ▪ Objectives followed <ul style="list-style-type: none"> - the multilateral development of a national territory - national autonomy and sovereignty in the context of socialist integration ▪ Deciding factor <ul style="list-style-type: none"> - the state ▪ Economic factors <ul style="list-style-type: none"> - maximization of national labor productivity - maximization of production and commercial costs - efficient use of total national resources ▪ Social factors <ul style="list-style-type: none"> - total employment of labor force - social homogenization - avoiding labor force migration ▪ Political factors <ul style="list-style-type: none"> - promotion of socialist ethics and equity in the distribution and use of the consumption fund - securing the presence of the working class throughout the national territory 	<p><i>In a free market economy</i></p> <ul style="list-style-type: none"> ▪ Objectives followed <ul style="list-style-type: none"> - balanced development between regions and areas of a country - effective integration in an increasingly globalized world according to the principles of specialization and international division of labor ▪ Deciding factor <ul style="list-style-type: none"> - the entrepreneur ▪ Economic factors <ul style="list-style-type: none"> - minimization of production and transaction costs - ensuring maximum competitiveness in an open economy - ensuring sustainable development requirements ▪ Social factors <ul style="list-style-type: none"> - increasing the employment of labor in terms of maximum productivity - reducing labor force migration - social cohesion ▪ Political factors <ul style="list-style-type: none"> - protecting national interests at the confluence of regionalization vs. globalization
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Source: authors' analysis.

As seen, the interference of the two viewpoints covers the economic and social factors. Efficiency and employment support optimal spatial development in both regimes. This would lead us to believe that, typically, a company that emerged in the market economy and functioned effectively under central planning should operate profitably, again, in terms of a new transition towards a free market. Does this rule apply? To find out, let us consider a particular case.

6. Case study: Iași Cigarette Factory, Romania

Iași Cigarette Factory started production in 1875 in a country positioned on the route of capitalist development (Gavriliu, 1927). Its emergence and establishment belonged and were organically integrated in the concerns of the political class of the time to harmoniously develop the eastern region of Romania, Moldova, with Iași being its center. Other related attempts must be remembered: the construction of a railway linking northern Moldova with the southern part of the country and the channeling of some rivers to facilitate communications (Bogdan, 1916) as well as the construction of the Iași – Pașcani railway to facilitate transport and provide an impetus for the emergence of new businesses and employment in the area (Ungureanu, 1980). The factory was located immediately next to the railway. Its emergence was the result of a long history (dating back to the 18th century) of tobacco cultivation and commercialization as a primary means of revenue for the local population (the 1803 Moldavian census).

The factory proved to be profitable. Two notable events influenced its dynamics: the abolition of a tax (“pogonărit”) on tobacco cultivation and the transformation of the business into a state monopoly after 1879 (Sibechi, 1983). The first measure was likely to create a favorable environment for tobacco growers. The second one was dictated by

budgetary reasons, i.e., the need of the state to expand its revenue sources (Aslan, 1905; Sibechi, 1983). After 1879, the factory expanded, with new warehouses and workshops, and in 1929, it was included in the House of Autonomous Monopolies of the Kingdom of Romania. Bombed during the Second World War, the company was rebuilt and updated with modern equipment to increase production capacity.

Throughout its entire existence under the socialist regime (1945-1990), the documents kept at the National Archives of Iași, recorded the factory's outstanding achievements in terms of both production and optimal use of the local resources, which led to the development of the region as well. More interesting for our analysis is the work of Ștefan and Irimie (1967), who reported the criteria on which the socialist authorities of the time believed that the company deserved to function in this area. The noteworthy advantages were related to the tobacco commercial crops, including the followings: tobacco is a technical plant that can be highly exploited to generate considerable income; the poor sandy soils of the hilly region of Iași can be given valued by the crops; tobacco ensures employment throughout the whole year and massive use of the female labor force; and over 30% of the processing (sorting, reworking, packaging) runs through the end of autumn and into winter, during which it can absorb the labor force from other agricultural sectors (Ștefan and Irimie, 1967). The factory was supplied by cooperative firms located in Moldavian counties. The company had a broad distribution network, i.e., wholesale businesses commercializing food products, commercial enterprises, urban consumer cooperatives, spread throughout Moldova (Iași National Archives, Iași Cigarette Factory, folder 258/1970). The data on deliveries in 1970 (Iași National Archives, Iași Cigarette Factory, folder III 12/1970) show that from the total production of 2,450 tons, 74% was delivered to sale units outside the region of Iași. In 1970, the factory had 280 employees, of which 161 were skilled workers, 53 were laborers and 66 comprised the auxiliary staff (Iași National Archives, Iași Cigarette Factory, folder 1/1970:165). Calculations on the necessary workforce and how to provide it were permanently made. Among the objectives followed by the *Plan on the technical and organizational measures to be achieved during 1966-1970* (Iași National Archives, Iași Cigarette Factory, folder 1/1970:165) were reducing costs to 1,000 lei worth of merchandise, increasing product quality, reducing the price of commodity production, obtaining benefit and labor productivity growth.

The publications of the time wrote about the outstanding achievements of the factory: “Iași Cigarette Factory is a national leader” (Flacăra Iașului, 1959, p. 1) and “The factory received the Unit Flag Award as an industry forefront in the socialist competition” (Flacăra Iașului, 1980, p. 3). Beyond the propaganda language, the most important aspect that emerges is that the company was generating profits.

Its trajectory changed after 1990. Like many other Romanian companies, the transition to the free market did not endow the Factory with any advantages. In June 2003, the Cigarette Factory in Iași was closed following the restructuring of the “Romanian Tobacco” National Society, with 200 factory employees being made redundant at the

time (Evenimentul, 2003). Since then, the factory buildings have been in a continuous degradation process, and some annexes have already been destroyed. Since 2010, the tobacco warehouse building, the only building of the entire factory complex saved from destruction, has been on the List of Historical Monuments and is used as an exhibition space by the “Ștefan Procopiu” Museum of Science and Technology within Moldova's Museum Complex.

It can be observed that we are dealing with a success story with a sad ending. The company emerged in free market conditions. It generated income in this system and in the communist one that followed. Having a state monopoly character, its management had a typical hierarchical structure (Coase, 1937). The case study compels us to conclude that this type of institutional arrangement allowed the transition from a market economy towards a planned economy but not vice versa. Why the company went bankrupt in 2003 cannot be answered by standard economics lessons. The unhappy ending corresponds to a transitional period from Romania's communist economy to a free market economy. In this stage, without a solid democratic institutional structure, Romania acceded to the European Union and opened its economy to the global economic circuit and foreign capital. For a quarter of a century, Romania has been in an advanced stage of mercantilism, undergoing a process of “uncreative destruction”, where the existence or nonexistence of a firm and its location have a faint connection with economic rationality regardless of the existent ideology. Only against this background of advanced corruption can the mixture of opportunistic behaviors and alien interests explain why a company that could have generated profit while being encouraged by the free market logic was sent into bankruptcy.

7. Concluding remarks

The determinants of economic spatial development were and remain to be of an economic and social nature. The primacy of either of the two categories of factors does not affect the common substance of economic calculations, according to which an enterprise is worth existing only if it brings profit to the entrepreneur and its products and services satisfy its beneficiaries. Originally, the territorial location of a company follows the criteria of efficiency. To attain sustainable development, however, the elimination of development discrepancies between regions and between household incomes in these regions is vital.

Forcing the issue, we might say that such a judgment scheme is valid beyond time, space or political systems. However, we have observed that ideology can alter things from their “technical” grounds. The undoubted proof of the success of the market economy tells us that the matrix through which it initiates, places and develops a firm is mimetic. The free market has its imperfections, but a better system of the allocation of resources has not yet been invented.

On the other hand, socioeconomic efficiency calculations were also considered by the planned economies of the communist system. The fact that the expected positive results

were not achieved was due to the inefficiency and perverse nature of the system as a whole. Here and now, we are interested in the fact that in the interior of the socialist economic mechanism, the technical neutrality of efficiency and rationality calculations has ensured spatial development continuity. A firm has to be initiated and placed where the level of trade costs, the usage of local raw materials and local area employment opportunities or outlets are optimal – a lesson worth engraving in the register of historical continuity. Today, emerging former socialist countries that have understood that an irrigation system or sugar, tobacco or brick factories, for example, cannot and should not be impregnated with any ideology have benefited by reinventing themselves, along with the transition process, leaving the past behind. Romania is not in this situation. Unfortunately, it aims to optimize the territorial distribution of industries that underwent an “uncreative destruction” for unknown economic reasons. In other words, the lesson of spatial development continuity was not learned.

Concretely, trying to answer the proposed research goals and, furthermore, in relation to the assumed initial premises, we consider that:

1. The rationality of efficiency calculus of territorial allocation had in Romania, as in other communist countries, the specific color of the time. It answered to some imperatives that were consonant with the communist ideology, but it did not verge on the absurdity or the elementary logic judgments. Briefly, it acted scientifically as much as the single-party state allowed. Beyond this line, the economic geography of the country received the color of the dominant ideology.
2. The territorial allocation concomitantly targeted the micro and macro perimeter. The equilibrium and optimal models of socialist economy, a consistent concern of some Romanian economists, provided coverage for both perspectives. The management with profit of a firm was considered as a part of the whole system, of the “optimal economic and financial mechanism”.
3. Regarding the technique used to promote individual interest, the case of Romania was not an exception to the general framework of communist countries. In terms of the epoch, the working people had to live well. But the individual interest was melted in the general one, and, thus, the man lived badly or at the limit of poverty.
4. A counterfactual analysis mixed with cliometrics could provide an accurate, arithmetical answer to the fourth question. But it is not necessary to invoke such analyses to accept that we have all the reasonable grounds, based on the Western experience, to believe that the extra prosperity brought by the free market would had been much higher than in the socialist system.
5. The analyzed firm had all the reasons to function with profit, irrespective of the political regime of Romania. The arguments that plead its presence remained the same even if it passed from the free market to supra-etatist planning and vice versa. After the ‘90s, the firm under discussion needed to be re-equipped in order to become consistent with the new competitive environment. But the fact that no one had interest in, including the Romanian state, finds its explanation in the disarticulated philosophy that drew the transition path of Romanian economy after the ‘90s. However, the end of a firm, visibly undesirable in the landscape of a global economy that knows to reject its obtrusive competitors, is rather explained by the geopolitics than by the ideology of a party.

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