

Economics of Sustainable Development. Competitiveness and Economic Growth*

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Abstract. *Economic growth is one of the most important issues of humanity. Both in national economies and world economy, recession and prosperity periods are regularly succeeding with different amplitudes. But beyond these fluctuations and their effects, the results are important: performance and economic growth. Because of the problematical issue of economic growth, the authors are trying to critically reflect on the economic growth concept and on its implications on the praxis area. Although there is a large literature about economic growth modeling, it is intriguing that there still are some serious obstacles for conceptualization and praxis. Only the simple fact that the economic growth process needs serious thinking on the time dimension is sufficient for understanding the real difficulties of this problematical issue. As for the economic growth praxis, a clear analysis of the interests system within an economy is needed. Without trying to find miraculous solutions for the economic growth issue, the authors suggest a clear and correct analysis of this important subject.*

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From the human progress perspective the most important issue is economic growth. Nations prosper when important performances in economic growth are recorded. Moreover, worldwide power differences arise first of all because of uneven worldwide economic growth. Growth has been rising over most of modern history.

There are enormous differences in standards of living across parts of the world. Average real incomes in countries such as Germany and France appear to exceed those in countries such as Bangladesh or Kenya by a factor of about 20. But, as with worldwide growth, cross-country income differences are not immutable.

The most striking examples of large changes in relative income are growth miracles and growth disasters. Growth miracles are episodes growth in a country that far exceeds the world average over an extended period. Some growth miracles are Japan, South Korea or Ireland.

Growth disasters are episodes where a country's growth falls far short of the world average. Two very different examples of growth disasters are Argentina and many of the countries of sub-Saharan Africa. In 1900, Argentina's average income was only slightly behind those of the world's leaders. But its growth performance over most of the twentieth century was dismal, and it is now near the middle of the world income distribution. Sub-Saharan Africa countries have been and have remained extremely poor, unable to ignite the economic growth process.

The various differences in living standards have had enormous implications on wealth, over time. These differences are associated with major disparities in nutrition, literacy, infant death, life expectancy and other wealth indicators.

Considering the significant impact that the growth process performances have on wealth, the fact that the effort made in this area has had a cyclical evolution is quite surprising.

1. Economic growth issues

Given the importance of the economic growth process and the problems that it involves, it is necessary to try to find a different approach. Despite the various definitions given to the notion of economic growth, there are two elements that stand out as a common denominator: *the subject and the time factor*.

From the *subject's* perspective, economic growth appears as a process located either at a microeconomic level – business, market, economic activity area (e.g.: the growth of agricultural production), either at a macroeconomic

level (national economy, multinational economically integrated system, or world economy). In the related literature, most often, the notion of economic growth is used with a macroeconomic meaning, extra-specifications being made for different microeconomic aspects. This is where the first difficulty of correctly approaching the problems of economic growth occurs: *the need for a complete conceptualization of the subject of economic growth. Thus, the conceptualization of economic growth may begin only after the emergence of the Keynesian theory, even though there have been other concerns in the economic theory regarding problematic areas connected to economic growth*⁽¹⁾. As such, the herein paper begins its cognitive intercession over economic growth with models having Keynesian origin. Only after completely defining the concept of macroeconomics and theoretically describing the main correlations among macroeconomic variables can the problem of economic growth be correctly approached. As in any major scientific problem, the main question was too easy to be able to succeed in defining the inner side of the problem: *what is growing?*

The merits of Keynes' *General Theory* are obvious when it comes to define the macroeconomic conceptual frame and, implicitly, the problem of economic growth. Nevertheless, an important flaw in conceptualizing the reference frame of economic growth will later on be revealed: *methodological cohesion*. By sacrificing the connections to the microeconomic domain, the Keynesian paradigm might not be able to comprise in its problematic area the domain of "growth engines". Since the theoretical lode from which the Keynesian paradigm has developed was nevertheless based on the capitalist ideology (that viewed private initiative and implicitly the market system as the main driving force of the economy), an introduction of the markets system within the conceptual frame of economic growth analysis was essential. Thus, John Hicks' contribution, through the IS-LM model, creates a methodological basis that is absolutely necessary in designing economic growth models with a Keynesian paradigm. However, further completion of the *Disequilibrium Theory* has pointed to the persistence of methodological flaws in the Keynesian paradigmatic frame, flaws that were to seriously affect the performances of economic growth modeling through this channel.

Another major difficulty in conceptualizing economic growth is given by its connections to other problematical domains. As a macroeconomic phenomenon, the process of economic growth is tightly connected to other major macroeconomic problems:

- *Economic equilibrium*. It is obvious that an economic growth that lacks macroeconomic equilibrium will amplify the tensions and disequilibria in a national economy, by destabilizing it. This is why economic

growth models cannot abstract from the macroeconomic equilibrium hypothesis. The conceptual difficulty in this respect consists in defining the mechanisms that ensure the stability of the equilibrium in a process of economic growth;

- *Cyclic aspects.* This phenomenon refers to the economic activity fluctuations around an ascendant trend in the long run. The connection between cyclic aspects and economic growth is given by the respective trend, which is actually the economic growth process. Although it may seem simple, this conceptual connection reveals another obstacle: the methodology of separating the cyclic component from the economic growth trend;
- *Economic development.* There are significant differences between economic growth and economic development. Economic growth refers to the augmentation of various aggregate macroeconomic indicators. Economic development involves much more cognitive dimensions. *Development must be imagined as a multidimensional process that involves major changes in social structures, in people's attitudes and in national institutions, by pursuing the acceleration of economic growth, the reduction of inequality and the eradication of poverty.* From this perspective, the failure of some of the first models of economic growth⁽²⁾ in explaining (and creating the background for some macroeconomic policies) economic growth in developing countries.

The *temporal dimension* of economic growth conceptualization involves even greater difficulties than that of defining the subject. The notion of economic growth usually refers to *the long or very long run*. This is where numerous problems related to approaching the time variable come up:

- Time represents an effective reality dimension, not just a reference, as proved by Albert Einstein's *Theory of Relativity*. Furthermore, in the very dynamic economic space, the temporal variable needs many touches. By working with small fragments of time for a long period, the economic theory has actually been avoiding a rigorous conceptualization of the temporal variable. By using the concepts of *very short* (market time – so that market participants do not have the time to adjust), *short* (in which installed production capacity remains constant) the traditional economic theory avoids approaching the problem of change (inherent in the rigorous use of the temporal variable). Not even the use of concepts such as *the rolling curve of average cost in the long run* (in the case of scale efficiency) has conceptualized economic time, but used it as an alternative for the

framework given by the short time (immutable). However, the approach of the economic growth notion makes the elusion of conceptualizing the temporal variable impossible, mostly because of the change that it brings along. Defined with such thinking efforts, the conceptual frame of macroeconomics was not prepared for Heraclites' axiom *everything flows*⁽³⁾. *To consider economic growth means to have the intellectual resources to consider the future.*

- The approach of the long term that corresponds to the economic growth subject involves a certain detachment from current economic problems. But detachment can be a luxury since glory, daily existence are connected to finding solutions for current problems. As such, economic growth represents an unappreciative problem for the daily statute of any economic researcher, only when current problems seem to indicate the occurrence of serious crises: food resources restrictions (Malthus), or energy crisis (Meadows). Anyhow, validating economic growth models also involves a long term, sometimes too long. From this perspective J. M. Keynes was being honest when he gave a famous reply to his critics: *in the long run, we will all be dead.*
- The insertion of the temporal variable in economic analyses implied a difficult transition from the deterministic paradigm to the stochastic one. Only the massive insertion of the stochastic factor in the framework of economic theory has created the premises for a rigorous approach of the temporal variable that is compatible with economic growth conceptualization. Nevertheless, the actual use of probabilistic variables does not necessarily involve solving the problem of conceptualizing the temporal dimension of economic growth. Tinting is still needed concerning novelty appearance, through combinations that are specific to the stochastic frame. When and how change occurs on a trajectory of economic growth. The appearance of a powerful mathematical support given by the Theory of Catastrophes, the Theory of Chaos or the Theory of Dissipative Structures has yet created a sufficiently large framework in order to test possible changes in the economic growth trajectories.
- From the viewpoint of empirical approaches that are specific to some economic phenomena that involve a long term, some time was needed in order to curdle the framework of chronological series econometrics and implicitly to build statistical data bases, which are necessary for the long run analysis.

2. The praxis of economic growth

The difficulties in putting into practice the visions regarding economic growth may be approached similarly to those of a conceptual nature.

From the perspective of economic growth's subject it is obvious that, in order to implement measures of stimulating economic growth, it is absolutely necessary that a coherent image of the national economic system exist: macroeconomic flows, indicators and variables. Only after the emergence of the Keynesian theory could the subject of macroeconomic policies be brought into discussion from a modern perspective and the grounds for projecting some economic growth policies were set. Nevertheless, the theoretical frame was not complete, without a system of macroeconomic indicators, able to measure economic flows, macroeconomic variables and results. This is because governments' interferences in the national economic system needed a rigorous sizing of the instruments and a highly precise evaluation of the macroeconomic variables. From this perspective, the Keynesian theory takes credit for having offered an important ground in setting up The System of National Accounting. Although put into practice at the beginning of the '50s, this system that elaborates macroeconomic statistical indicators has gone through several rounds of transformations and improvements, the form used currently by OECD and the Eurostat being completed only in 1992. Without a rigorous and uniform methodology for statistical indicators, the effects of applying some economic policy measures implemented by the governments of different countries could not be accurately estimated and conclusive international comparisons could not be made.

Another difficulty in economic growth praxis is connected to the actual manifestation mode – macroeconomic policies. Theoretically defined as an assembly of measures through which the government interferes in order to modify certain variables and parameters of the national economy, the economic policy appears at a conceptual level as a set of solutions for macroeconomic problems. In order to become an instrument for governmental interference, the economic policy bears a certain dose of doctrine and sometimes ideology⁽⁴⁾. Taking into account Max Weber's saying according to which: *politics represents the area of power, meaning the system through which a social group imposes its will over the other society members*, it follows that the effective projection of macroeconomic policies requires a consensual basis among those governing, respectively the accomplishment of an equilibrium of interests at a social level. Most often, consensus and equilibrium of interests are difficult to attain because of the fact that there are different views regarding the area of economic reality that is subject to interference. This means that, although

apparently simple, economic policy involves more than just a simple application of some recommendations of normative economic theories; the judgment according to which an economic theory corresponds to many types of economic policies being very accurate. Furthermore, economic policies involve advantaging some social groups and only rarely maintaining at the same level the utility of other social groups according to the Pareto optimum social principle. In a democratic system, maintaining a convenient equilibrium of interests at a social level implies projecting some strategies and a system of instruments through which the economic policies can be applied. This means that the implementation of economic policies is often assessed according to the manner in which different instruments of governmental interference in the economy through various economic strategies are used.

From a temporal perspective, the praxis of economic growth involves the reconciliation of short and medium term interests with long term interests. But this is difficult to attain even for a single individual, all the more for a group or for the whole society. Often engaged in solving current economic problems, the government will not pay sufficient attention to the medium and long term horizon. This is because the subject of economic growth is not really profitable for politicians. They must come up with solutions for current economic and social problems, to offer visions about the present or future immediately, not waste their efforts with what will be. Political parties that govern a country often combine their economic policies according to the election calendar and not the real needs of the economy, creating the so-called election cycle effect (Jula, 2008). If politicians are willing to sacrifice the efficiency of implementing short and medium term economic policies, the chances that they will be seriously preoccupied with the long term problems are quite slim. A serious approach of the economic growth problem involves a great dose of responsibility: to think thoroughly of the next generations. This involves a certain visionary spirit. But from a practical viewpoint, few will overlook your spending of current resources for future visions. However, the visionary spirit: simple-mindedness, curiosity or even madness are qualities that are not really compatible with the profile of a successful politician. This is why there have been few serious concerns (truly believed in) for economic growth.

3. Conclusions

Most often, the aspect of economic growth has been included in the work agendas of politicians when there were serious gaps in macroeconomic performances of a certain country in relation to the average level of a group of more developed countries, or when serious threats regarding future

development of some national economies were foreshadowed (resources weariness, demographical disequilibria, excessive pollution etc.). Preoccupied with elaborating catching-up policies, or with avoiding some obstacles to future development, governments were sometimes bound to concern about the policies of economic growth.

Notes

- (1) For example, in chapter III of the *Wealth of Nations*, Adam Smith approaches the problem of differences in progress and of abundance of different nations. Even the population law of Malthus can be regarded as a precursor subject for the knowledge area of economic growth. Karl Marx can be viewed as another precursor of the economic growth aspect, because of his analysis of the dialectical process of progress in the economic area.
- (2) Both the models of economic growth of Harod and Domar, as well as Robert Solow's model do not manage to yield satisfactory results in the tests and applications in some Third World countries.
- (3) Long term makes it impossible to avoid Heraclites' paradox, according to which you *cannot bath twice in the water of the same rive*.
- (4) Simon Kuznets correctly grasped these aspects when he defined economic growth as: "the increasing capacity of a country to growingly supply different economic goods, capacity which is based on high technologies and on institutional and ideological adjustments".

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