

Capitalul în România postcomunistă [*Capital in Post-communist Romania*], by Florin Georgescu, Editura Academiei Române, București, 2018, 3 vol., ISBN 973-27-2936-6

Book Review by Paul Dobrescu and Mălina Ciocea¹

Abstract: *This book is arguably the most comprehensive and detailed analysis of the crucial process of Romania's post-communist transition. The author defines capital broadly, not just in terms of volume of money, but also as previously produced goods, that ensure the development of economic activities. This vision allows him to give a detailed description of the real economy of Romania, its problems and their possible solutions. The dense analysis manages to capture many of the structural weaknesses of the economy. The thin capitalization of public and private firms, Romanian or foreign, the low complexity of production, and modest value added, make exports dominated by intermediate goods, leading to low competitiveness. This leads to the assessment that the current state of the Romanian economy is specific to low- to middle- income developing countries, rather than developed economies. The impressive amount of data backing the analysis leads to sound conclusions.*

Keywords: *capital, competitiveness, post-communist transition, thin/thick capitalization*

Florin Georgescu's book exudes modernity: it is connected to contemporary debates and is integrated into the dominant theoretical trends of the moment, examining the Romanian experience through the lens of internationally circulated theories.

One such prominent source is the "magnificent, sweeping meditation on inequality"², as Paul Krugman labelled Thomas Piketty's book.³ In fact, Piketty is

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² Krugman, P. (2014). Why we're in a new gilded age. *The New York Review of Books*, 8.

³ Piketty, Thomas. (2014). *Capital in the Twenty-First Century*. The Belknap Press of Harvard University Press.

the author that Florin Georgescu quotes extensively, not so much for his ideas (the distribution of the newly created revenue between labour and capital, an idea with deep political roots, has been approached by Georgescu before the publication of Piketty's work), but for the soundness of his analytical construction. For instance, Thomas Piketty et al. have developed a historical analysis of inequality, based on researching the tax records in developed countries over the course of several centuries. Given the extent of the research, the conclusions are difficult to refute. Florin Georgescu undertakes a similar task: "Our study, based on a long series of data over the last 27 years, can offer a historical perspective to the economic and social phenomena and processes we have analysed, which will contribute to designing and applying public policies meant to allow objectively necessary adjustments to building the Romanian society."⁴ The data supporting the analysis is impressive: for instance, 650000 balance sheets turned in to the Ministry of Public Finances. To this ample empirical data, the author adds substantial analyses conducted before 1989 on various enterprises.

Another author that Florin Georgescu quotes frequently is Paul Volcker, former Chairman of the Federal Reserve, who managed to put a stop to high rates of inflation in the 70s, that threatened to bring to an end not just the American economy, but American society, as well. Martin Wolf said that "the financial crisis would not have happened if Volcker had been Fed chairman in the 2000s."⁵ The Financial Times commentator remarked, with reference to Paul Volcker's recent book: "sound money (by which he does not mean precise targeting of inflation) and sound finance are two of what Volcker calls his 'three verities'. His third is 'good government'.⁶

Florin Georgescu is, arguably, the most experienced professional in finance and banking in Romania. His deepest beliefs are organically correlated to what has been called sound money and sound finance. The three volumes of this book stand proof to that. He argues the idea that the strongest pillar of democracy is capital, whose interests should be interwoven with the country's interests.

We must remark on the broad definition given to capital, not just in terms of volume of money, but as comprising "all goods that condition the production of new goods and services". This is a vision that Florin Georgescu shares with Virgil Madgearu, who defined capital as "the entirety of goods created through previous economic activity, destined to facilitate and achieve future production."⁷ This places both authors in the tradition of economic thinking of the 20th century (Schumpeter, Samuelson and so on), which „sees capital as production factor."⁸

Given the magnitude of the analytical effort, substantial analysis and the soundness of the conclusions, this book will become a reference for future research on the Romanian post-communist transition. The state cannot be absent from such ample processes. Florin Georgescu aims his criticism directly at the state, its activity

⁴ Georgescu, Florin. (2018). *Capitalul în România postcomunistă* [Capital in Post-communist Romania]. Editura Academiei Române, p. XVII.

⁵ Wolf, Martin. (2018). Keeping at it, by Paul Volcker. *Financial Times*. October 29, <https://www.ft.com/content/a7cd1142-d856-11e8-a854-33d6f82e62f8>, retrieved 15 August 2019.

⁶ *Ibidem*.

⁷ Georgescu, *op. cit.*, p. 10.

⁸ *Ibidem*.

and vision for Romania's evolution. For instance, when he asserts that privatization was a means to change ownership, rather than capitalize firms⁹, or when he is critical of directing newly created value to capital, rather than labour, it is clear that he means that such decisions were the responsibility of the state. The same modern perspective is employed to analyse the relationship between the state and the market. Under the increasing influence of neoliberal thinking, most Romanian authors have supported the idea of the minimal state. Not Florin Georgescu, who shares the balanced view on the role of the state in the economy of other international authors, ten years after the financial crisis of 2008. In this respect, Dani Rodrik has said that "markets and governments are complements, not substitutes. If you want more and better markets, you have to have more (and better) governance." Markets work best not where states are weakest, but where they are strong."¹⁰

Florin Georgescu's book has the merit of overcoming the rhetoric of *macroeconomic balance*, *positive dynamics*, and *promising evolutions*, words that have marred the debate over the last 30 years in Romania, which have been characterised by massive deindustrialization, amassing debts, and chaotic evolutions. Instead, Florin Georgescu proposes a radiography the health of the national economy, an examination of the roots of sustainability, and the factors that decisively influence an economy's viability and competitiveness. The analysis is valuable because it looks into the depths of the economy and focuses on what has effectively been done. "Seeing that actors in the public space speak almost exclusively about fundamental macroeconomic indicators, such as gross domestic product, inflation rate, general government deficit, external debt, I have found it necessary to analyse the economy's structural and qualitative aspects, especially the indicators for capital, arrears, financial loss and income inequality, whose evolution significantly influences the sustainability of macroeconomic stability"¹¹. Here lies the value of the book, which will ring true over decades and will guide research on the Romanian economy in the future.

The analysis reveals the multiple structural weaknesses of the real economy. Most are associated with current capital formation in Romania, whose focal point has been the creation and stimulation of the private entrepreneur, "based on neoliberal ideology guidelines", that see the private entrepreneur as the main factor that would stimulate investments, promote innovation, and take risks. Such objectives could have been accomplished by privatization. The formula might have been correct, but it was applied hastily to respond to a political imperative: transforming former collective ownership into private ownership. This resulted into the former collective ownership being visibly diminished to the point of annihilation. The counterpart – prosperous, dynamic, competitive private ownership – failed to materialize. So did modern capitalism. Romanian capitalism was of the suffering, inefficient kind. "Following privatization, Romanian industry was destroyed. At this moment, economy is dominated by big corporations, especially foreign capital corporations. Local capital is mainly present in SMEs, in trade and services that create low gross value added (GVA) and maintain low

⁹ *Ibidem*, p. 929.

¹⁰ Rodrik, D. (2011). *The globalization paradox: democracy and the future of the world economy*. WW Norton & Company.

¹¹ Georgescu, *op. cit.*, p. XVIII.

wages.”¹² The author speaks about “negative realities”. In our opinion, this is an understatement. Romania has semi-capitalism: semi-competitive, semi-productive, semi-satisfying capitalism. The wealth amassed before 1989 was distributed to small groups in privileged positions, and has not encouraged competitive economic structures. That is the reason why now islands of efficiency and prosperity are surrounded by underdevelopment and confusion. *Trust, the real engine of free initiative*, is hard to find. The conclusion is clear: Romania’s real problems are not institutional or image-related, but “the deeply embedded characteristics of economy and society, that place Romania closer to low- to middle- income developing countries than to developed economies.”¹³

The author asserts that “capital is the main factor that influences economic growth.”¹⁴ As a result, the national priority, the aim of public policies in Romania, should be the means to increase capital – intensifying savings, accelerating investments, attracting foreign investment, and changing radically the volume and structure of exports. Transition triggered radical changes: the state ownership plummeted (from 55% in 1997 to 12% in 2016), while private ownership rose sharply (from 45% in 1997, to 88% in 2016). As a consequence, nonfinancial private capital became dominant. The analysis of the internal mechanisms of this transformation reveals several paradoxes. Firstly, the relationship between local and foreign capital: in 1997, nonfinancial local private capital represented 36% of total capital in real economy, while foreign capital was at 9% of total value. The data looks different for 2016: foreign capital represented 48% of total value, with Romanian capital amounting to 40%.

At first sight, the sector of local private firms is well developed and dynamic. In reality, given the number of SMEs, the sector is neither very stable, nor very dynamic. Furthermore, it is very polarized: the top 1% of firms generated 67% of total GVA and employed half of the number of workers, in 2016. In the case of corporations, foreign capital corporations covered significant ground: out of the 1700 corporations, foreign capital corporations (772 units) generated 28% of GVA, while local capital corporations (736 units) generated 10% of GVA. The worrying trait of the private sector is *thin capitalization*, especially among local firms, but also among foreign firms (where 51% are thinly capitalized). That is why the author proposes a reform of private capital firms, which has already happened in other former socialist countries. This reform would discourage the behaviour: private gain – public loss and ensure the normal correlation: private gain – public profit.

In Romania, value added in most economic sectors is low, sometimes discouragingly low. Florin Georgescu shows that in process manufacturing, apparently a more promising field according to statistics, GVA is at best at medium level. Even in those areas of process manufacturing where foreign capital is present, most investment is directed towards crude oil refining, metallurgy, food industry, textiles and clothing industry, cement, glass and ceramics products, and wood processing, which are activities with relatively low complexity, generating low GVA. The direct consequence is that export is dominated by these products. 60% of the Romanian exports, shows the analysis, is constituted of intermediate goods,

¹² *Ibidem*, p. 935.

¹³ *Ibidem*, p. 963.

¹⁴ *Ibidem*, p. 960.

which are assembled in other countries. Consequently, products made in Romania cannot be efficient or competitive.

In today's world, there are thickly capitalized countries: Germany, China, South Korea, etc. Acquiring capital requires a lot of work, effort and, above all, *vision*, supported by *the determination to implement it*. It is difficult to become an export-oriented economy. Trade surplus countries are vision-led, have combined the market strength with state-led strategy, and have understood that export is a must for capitalization.

In recent years, a significant gain for the debate on development has been the direct criticism of the excesses of hyperglobalization in the pre-crisis period, when "globalization became the end, national economies the means."¹⁵ This is a new context, and Romania should be prompt in understanding that a development strategy should be its real priority. Because it is a structural construction, the development strategy is *unique*, and does not follow canon. It needs to respond to global development trends, but it relies on the internal economic, social and cultural realities, so it has to be realistic and adapted to the context. An imported development strategy is a contradiction in terms.

Florin Georgescu's book is dedicated to Romania's development over the last 30 years. It is the endeavour of an author who feels for Romania and who asks hard, sad and disheartening questions. A real debate on Romania's development needs to follow the publication of this book. This is not a theoretical study, but an ample investigation which should stimulate a real change in public policies in Romania. Many of the book's assessments, correlations, and findings could ground a government program, and even a country program. In this context, one of the important ideas in the book is that euro adoption needs to be accelerated. In the absence of a country program, the adoption of the euro could be the only driving force for development. In fact, Romania's history teaches us that important developments have, most often than not, been the result of constraining contexts which have encouraged ample engagement.

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¹⁵ Rodrik, D. (2019). Globalization's Wrong Turn: And How It Hurt America. *Foreign Affairs*, 98, 26.

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Born in Bucharest in 1953, **Florin Georgescu** graduated from the Academy of Economics in 1976. He has a PhD in Finance, Money Circulation and Credit from the Academy of Economics (1989). Florin Georgescu had a research internship at the University of Missouri Kansas City with an Alexander Hamilton Scholarship, under the Fulbright Program (August 1991-May 1992). In 1992 he was appointed Secretary of State at the Ministry of Economy and Finance and later became Minister of Finance (1992-1996). In 2012 he was Deputy Prime Minister and Minister of Public Finance. He was Deputy in the Chamber of Deputies (1996-2000 and 2000-2004). Since 2004 he has been Vice Chairman of the Board and First Deputy Governor of the National Bank of Romania. He is a Professor and Doctoral Supervisor at the Academy of Economics, Bucharest. He has published extensively and is well-known as a prestigious academic.