

ADMINISTRATION AND LOCAL ECONOMIC DEVELOPMENT

CASE STUDY: VALCEA COUNTY

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Abstract: *The involvement of the local governments is one of the key issues and challenges for the development of each region, and, not least, for the development of Romania as EU member state. The main purpose of this paper is to identify the main factors influencing the administrative capacity of the local authorities in Romania, especially those in Valcea County, to provide the economic operators and the citizens with a favorable environment for conducting economic activities and a high level of life standard. For instance, I shall follow the development of several economic indicators relevant for the economic development and involvement opportunities of the local government in order to improve the economic situation specific to this county. As research methods in this paper I have used classification, synthesis, static and dynamic comparative analysis, methods of induction and deduction, graphical representation of the events and phenomena investigated in an attempt to provide an explanation of the problems that should be convincing, theoretically.*

Key words: *economic development, public administration, sustainable development, local governance, macroeconomic indicators.*

JEL Classification: *H 11.*

1. Introduction

Globalization, but also the occurrence of the current economic crisis in our country have influenced the authorities to be more involved in the local economic development. Thus, in recent years, a number of experts, both theorists and practitioners in Romania, “expressed a real interest in addressing the local economic development phenomenon” (Profiroiu, 1998: p.27). Once this concept appeared, a number of new terms has been introduced and developed, terms such as: local economy, local community, local economic development factors, local initiatives, local decisions, local services, local projects and others.

Among the works that aimed at the research of local economic development and administrative involvement I can quote “Management in local public administration” by Tudor Pendiuc (2003). Another relevant work in this area is “Regional economy - local economy. Concepts and practical actions in European vision” by Dorel Sporiş and Mihai Constantinescu (2006).

The book “Public services and local development” (2008) by Dragoş Dincă aims to identify the mechanisms underlying the relationship between public services-local development, and also the methods through which the public services contribute to local development. Moreover, Lucica Matei and Stoica Angelescu (2009) in the book “Local Development. Concepts and mechanisms” present local development as a management, social and economic process, which produces both qualitative and quantitative accumulations in order to increase social and individual welfare in a certain area.

The harmonious combination of the economic aspect with the administrative aspect is found in the work “Theoretical and empirical models of local development” by Ani Matei, Stoica Angelescu and Savulescu Carmen (2009), a work that highlights, based on econometric models, the development of Brăila city.

The interest shown by these specialists resulted in defining the “local economic development”, and less of the one of “local economy”. Therefore, based on the opinion of more researchers in the field, local economic development is “a global integration strategy of the social and economic objectives for the socio-economic revitalization of a community” (Council for Urban Economic Development, 1998, p.24). Based on this definition, I can say that joining the forces of all the legal representatives both from the

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public sector and the private and social one to efficiently use the natural, human, technical, and financial resources will create new jobs and implicitly to that community's economic revitalization. As we can see, cities are engines of growth, thus growth itself is rooted locally. Each local authority should be aimed at increasing competitiveness, it needs to ensure the sustainable growth of the community it leads. By local economic development we understand gathering all the forces to support economic the activities specific to the area in order to get income at the local budgets and to ensure the an appropriate living standard for the citizens, worthy of the period in which we live.

The role of the local authorities is to support entrepreneurial activity in the area by all the legal means at their disposal, but also by providing an adequate infrastructure. Another milestone in the development of this concept in our country is "the manifestation of the territorial decentralization and deconcentration phenomena of the public services" (Profiroiu, et al, 1998: p.7). There is not a small number of people, both theorists and practitioners, who support that local economic development aims to reduce poverty. The economic growth of an area occurs only when all who have decision-making power, but also executive power, work together to support that community, to ensure a decent living standard for the citizens, especially to the poor and marginalized ones by creating jobs. If the economic activity in the area is thriving and if the people have a decent living standard, we can say that we are in the growth phase of the local economy.

2. Research Methodology

The research methods consist of the systematic and comparative analysis and in the comprehensive approach of the topic investigated, according to the set purposes and objectives. This research is based on different types of databases and it uses various methods in an attempt to provide an explanation of the issues that are, theoretically speaking, persuasive. In this paper I have used methods such as: classification, synthesis, static and dynamic comparative analysis, methods of induction and deduction, graphical representation of the events and phenomena investigated. The investigation of certain economic phenomena may have scientific sounding only if we use mathematical and statistical tools, and they are always accompanied by a sound deductive analytical logic.

For instance, the favorite character of the research is the quantitative one. This is given by the use of official statistics taken from official sites, but also provided by Vâlcea County Statistics Agency. In addition to these statistics I have used graphs and tables frequently used as methods in the quantitative research, their main advantage being that they are easy to interpret and understand (Bryman, 2001, pp. 222-225).

3. The economic situation of Vâlcea County

The economic factor is the variable component which includes the business and investment environment, the funding programs, the adoption of fiscal strategies at local level, micro and macro-economic policies. The creation of programs able to attract structural funds related to the efficient use of the already used ones may increase the economic performance of public administration. All the components forming the economic life of Vâlcea County make up the *economic environment* of this county.

By economic factors, we understand the distribution method of resources in society. The representatives of each local administration, and also that of Vâlcea County should consider the GDP growth, the division into sectors of the local economy, the development level of each branch, they must make sure they have a budget surplus, not a deficit. The local economy may be also influenced by the economic phenomena at national level and even internationally, that is why the local authorities should take notice of the inflation rate, the interest rates, the effects of the economic crisis, taxation, the employment of labor, price trends, evolution and distribution of income on social categories, the population's indebtedness and others.

In order to notice the economic development possibilities of Vâlcea County, I considered necessary an analysis of some relevant statistical indicators. The GDP, which is a synthetic indicator best characterizes the development of a territory, and in case of Vâlcea County it is also the basis for more in-depth socio-economic analyses. In this study I aim at analyzing the gross domestic product in Vâlcea County in the 2007-2011 period.

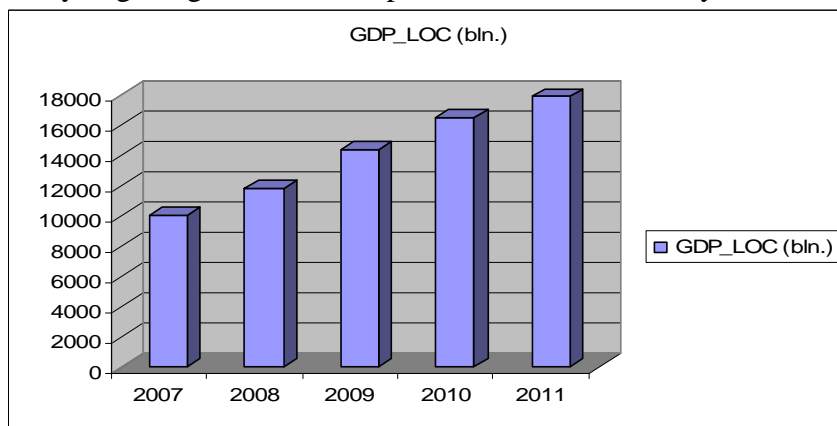


Chart no. 1 Evolution of GDP per capita in Vâlcea County

As it can be seen in the chart above, the GDP per capita in the period investigated has an increasing trend. The manufacturing industry, the revenue from real estate, renting and services mainly performed for enterprises and the agriculture are the main economic sectors from Vâlcea County that led to the growth of the GDP in this County in the investigated period. An important contribution to the positive development of this indicator has been attributed, since 2007, to the income from real estate, renting and services mainly performed to companies, which have managed even to double in the investigated period. The revenues from the manufacturing industry decreased from 1813.30 million in 2009 to 1414.90 million in 2010, but this did not lead to a decrease in the GDP because other sectors of the economy, such as the income from trade, transportation and construction, were able to compensate for this decrease.

Regarding the salaries, there is an increase in this indicator, as shown by chart no. 2.

The average gross salary increased from 832 lei, respectively the net one of 639 lei in 2005, to 1586 lei, respectively 1176 lei net. An important contribution is given both by the employees' salaries from the extractive industry and by those in the public service companies in the County that register double values as compared to the county average wage and which compensate the salaries of those who perform a trade activity or who work in services whose net income was of 708 lei in 2009.

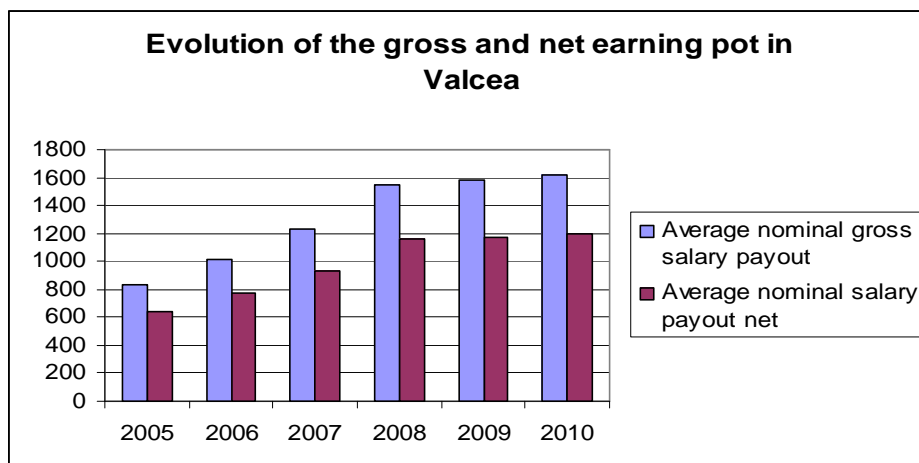


Chart no. 2 Evolution of the average gross and net salary in Valcea

An important role in determining the economic situation of Vâlcea County belongs to the evolution of loaning. Thus, I have conducted a survey which identified the idea that between December 2005 and October 2011, the number of people who used a bank loan almost tripled, rising from 353.80 people to 833.8 people. This increase is due to the relaxed lending policy that was used by banks, offering loans “only by providing an ID”. The same situation occurs among economic agents, but also in other companies, such as insurance companies. As it can be seen in the chart below, both the population and businesses preferred to borrow in foreign currency.

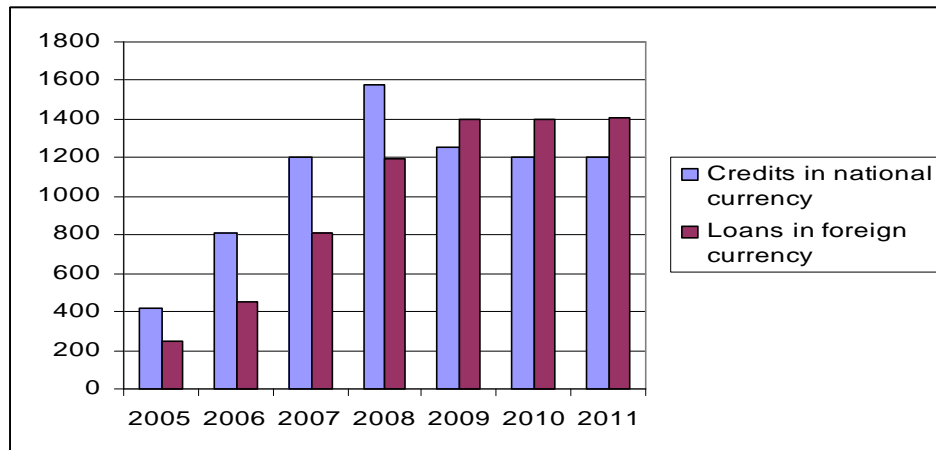


Chart no. 3 Evolution of loans in domestic and foreign currency in Vâlcea County

Foreign currency loans were not at all favorable for the population, and neither for businesses, because the current economic crisis devalued the national currency. Normally, loans must be made in the currency in which we earn revenue. Thus, as a result of the increase amounts to be repaid, both because of higher interest rates and because of depreciation of the national currency and because of the salary decrease, we notice an increase in arrears to banks.

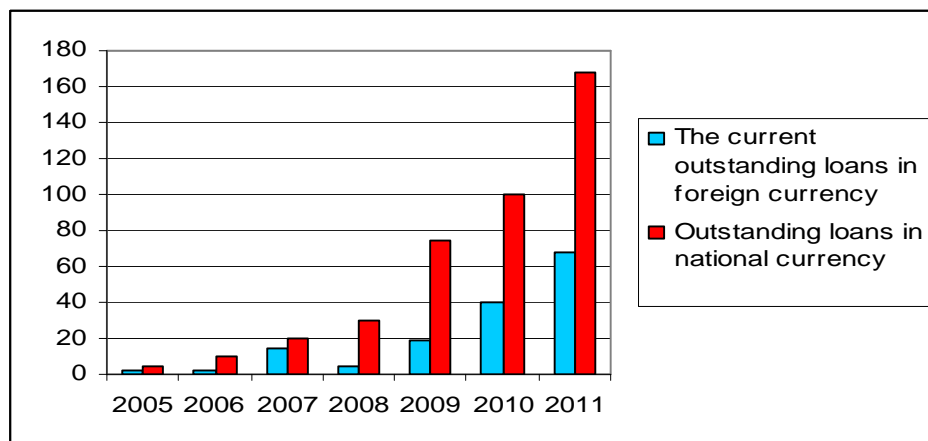


Chart no. 4 Evolution of the population's loan debts

The economic and financial crisis of the past three years has led our country to be within the top 12 countries in the world with bad credits, being the second last. A consequence of this unfavorable situation is the increase of unemployment, but also of the income, the most affected being those in the public sector whose incomes have been reduced considerably in recent years as a result of the austerity measures promoted by the government.

As it can be seen in the graph above, since 2009 these growths of the arrears have increased in the Vâlcea County as well, but as shown in the same graph, the largest debts are recorded for credits in lei. This is due both to the increase in unemployment, reduction of the population's income, but also to the ease with which people took out loans, as I have noted above the getting of a loan "only by providing an ID".

Thus, I can say that both the population of Vâlcea County and the economic agents entirely felt and still feel the effects of the current economic crisis, with negative effects on the County's development opportunities.

4. Social analysis of Vâlcea County

By social environment (Ioncică, 2006, p.41) we understand all the elements that define society, assigning it its own system of values, traditions, customs and rules that lead to a particular ethical, moral and cultural behavior for its members. There are not few cases in which the social factor, together with the economic one, represents the rationale for the analyses on consumer behavior, education and professional training, quality of life and cultural developments, social dimension, representing an influence factor on the strategic direction of the local communities' development. The cultural factors exert a broad and profound exogenous influence on the behavior of the people from Vâlcea County in society. Local public authorities are concerned with the cultural aspect in that they signed partnerships with the Philharmonic, the theater and the County library. Thus, the authorities from Vâlcea County sponsor the cultural events for the citizens to enjoy the fruits of the County's cultural life cost-effectively, given the current economic crisis conditions. In my opinion, it is necessary that every citizen of the County enjoys a relaxing oasis. The educational factors and, in particular, education contribute directly to enhancing the level of culture and change in the mentality of the society's members, which is reflected in the relations between the citizens and the local public administration.

In Vâlcea County, each village has its own school and the high schools are located so that each student can attend its classes. In terms of universities, the County has a good position as well, with two private universities, a state university and five subsidiaries of renowned public and private universities in the country. Regarding the number of people attending a type of educational institution, I have presented the situation in Vâlcea County in the following chart:

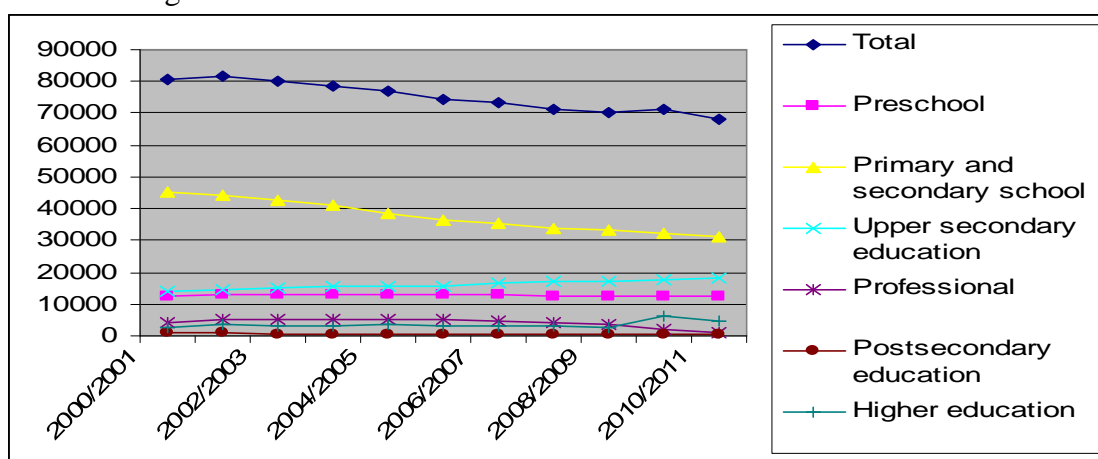


Chart no. 5 The situation of the people attending a type of educational institution

I have also noticed a national problem in Vâlcea County related to the mismatch between the skills acquired by the graduates of vocational schools, high schools and universities, on the one hand, and the jobs available on the labor market, on the other hand.

Companies do not pay enough attention to graduates or even to students in order to train them and for future employment. Because of the lack of a partnership between the educational institutions and companies, the firms in the County do not spare the recruitment of qualified human resources. There are less and less practical agreements signed between most high schools, universities from Vâlcea and local companies. Therefore, local firms, instead of benefiting from these advantages, are forced to invest in human resources.

By social factors we understand the harmonious combination of the demographic environment with the increasingly fierce trend of protecting the environment and the quality of life, that is to say of sustainable development. Currently, both theoretically and practically, the quality of life is increasingly emphasised, which is considered to be very important for the next generations. In the current period, our country, because of the economic crisis and implicitly because of losing more and more jobs, an increasingly larger number of people live in poverty, being at times forced to give up what we consider essential services (utilities, especially adequate heating, sewage). Their number is increasing and, at the same time, it exceeds the EU average.

External migration of the population, but also the increase in mortality compared to the birth rate, combined with the policy of the communist period, explain the growing aging of the population and implicitly the decrease of active population in Vâlcea County after the 1990s.

In 2009, the natural increase was negative, registering 1181 people. The current demographic evolution has a negative impact on the economic factor because in some areas of the county the depopulation phenomenon occurs, which affects the development of the County.

The demographic decline caused by migration brings a number of advantages, but also a direct loss and damage in the age structure. The category of the economic benefits of migration for labor in the previous years includes the reduction of unemployment, improvement of the living standards, the housing boom and the boom in the sales of equipment and supplies for equipping them, in the number of cars, creating jobs, stimulating consumption, in the context in which a proportion of the household income returns to their country of origin. If labor migration is a temporary solution, in the future there will be a marked aging of the population who will no longer be able to support the economic development of the County. Migration is a phenomenon that affects the County's development possibilities, because the population covered by this phenomenon received "free education", the state has invested in its education and the fruits of this investment are collected by other countries. The massive migration occurred in the less developed areas (the rural areas and the small towns) causing imbalances and even territorial depopulation, especially because it has not been compensated by birth. In my opinion, the current global economic crisis will not cause the massive return of the labor force, because of the lack in Vâlcea County, as well as nationwide, of jobs to absorb those working abroad. A recent concern is the fact that migrants usually prefer to keep their savings in the migration countries.

I ask myself the question "How can we maximize the development potential?" In fact, what should the government, the local authorities, the private sector, the social sector and not least the migrants do? In my opinion a solution would be to promote sustainable development in the countries of origin, in the present situation in Romania, by overcoming the economic model based on consumption; it is also necessary to support efficient circular migration and ensuring that both benefits and costs are managed fairly. It is also necessary to attract the migrants' savings and transfers to the official institutions of financial intermediation and to productive investments in the countries of origin. In fact, I think it is

important for Romania to support migrants in reaching personal savings goals instead of promoting policies and practices which effectively prevent this. I consider necessary the development and testing of replicable and sustainable business models that will be able to overcome the current borders in services, savings and investments. As a result, the population, as mentioned above, is an important factor in the local development.

Conclusions

Lately, the economic growth has been discussed, a phenomenon that does not bring welfare to the citizens, does not provide them a better social status, but covers only the favorable development of certain macroeconomic indicators. For example, the concern of the central authorities and also of the local ones is important for the economic development of each country, thereby, of each area.

As we all know, the financial resources of the local public administration are largely made up of taxes and duties paid by businesses and, implicitly, by the population. And, as such, if the income from wages or profits record growth, they will also increase the financial resources of each local community. On payment of such fees, the economic agents as well as the population benefit from the public services. Consequently, the local authorities have to worry about the increase in the number of companies that pay taxes and duties, the increase in the number of people employed, social stability and not least improvement in the environmental conditions of the local community. All these must be carried out by the local public administration, which is the local authority that benefits from administrative autonomy, whose role is to take initiatives in local economic development. Therefore, a leader must know that a community needs investment, not just assistance.

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