Social factors influence on economic growth. The case of Romania

Bogdan-Ion Boldea\textsuperscript{1+}

\textsuperscript{1} West University of Timisoara, Romania

Abstract. The economic sustainable development and social and cultural development are closely related to one another. The purpose of this paper is to prove that macro-statistical indicators such as GDP are not the most viable measures of sustainable development, failing to take into consideration some specific sectors of the economy, such as the black market, grey economy, or education and healthcare indicators, as Human Development Index. Within the paper, these last factors are divided into cultural and demographic factors capable to provide economic growth. Secondly, the paper reveals the social and economic context in Romania, in comparison with other European countries, in order to identify the main differences between those countries and the source of problems related to the Romanian economy.

Keywords: sustainable development, demographic and cultural indicators, GDP, HDI

JEL Codes: E24, H21, H55, J31

1. Introduction

The purpose of this paper is to prove that the most used macroeconomic indicator, GDP per capita is not always the most proper indicator to measure the nation wellness. It is indeed very easy to be calculated. The GDP fails to take into consideration some specific sectors of the economy, such as the black market and grey economy. The reason most of them failed is related to the wrong hypothesis that the nation wellness is based only on the level of income.

Within the paper, the social factors are split into demographic and cultural factors. The analyses performed present the significance of each of those two factors when studying their impact on the economic growth. For example, the population’s structure represents a very important social indicator, as it influences the distribution of the public income.

None of the economic topics have captured the attention of the economists, physicians and politicians, as the concept of the economic growth. This is due to the major significance of the topic upon the entire population in a country, which made the maintenance or improvement of the economic environment an objective of the macroeconomic policy, on short, medium and also long term.

The analysis of the social factors helps understanding the human behavior in respect of consumption, savings, investitional system, expectations and attitude towards the economic circumstances, which also have a major impact on the economic growth. The basic idea is that human development should be taken into account along with the economic development when establishing the macroeconomic objectives of a country.

The paper points out the necessity for a society to sustain the human development (which is measured by HDI), taking into consideration the economic benefits which arise from it on long term. The results of the analyses performed prove the relevance of cultural and demographic environment when analyzing the economic growth.

2. The demographic influence upon economic growth

Due to the fact that people’s economic behavior varies at different stages of life, changes in a country’s age structure can have significant effects on its economic performance. Usually, nations with a high

\textsuperscript{1+} Lecturer PhD, e-mail: bbi77@yahoo.com.
proportion of children are likely to devote a high proportion of resources to their care, which tends to depress the pace of economic growth. By contrast, if most of a nation’s population falls within the working-ages, the added productivity of this group can produce an increase in the economic growth. This is how the combined effect of this large working-age population and health, family, labor, financial and human capital policies can create virtuous cycles of wealth creation. Furthermore, if a large proportion of a nation’s population consists of the elderly, the effects can be similar to those of a very young population: a large share of resources is needed by a relatively less productive segment of the population, which likewise can inhibit economic growth.

Population’s structure has three main mechanisms for determining economic growth: human capital, savings and labor supply (Bloom, D., Canning, D., Sevilla, J., (2001)).

a. Human capital

The demographic transition has also significant effects on investments in human capital, effects which are the least tangible, but may be the most significant and far-reaching. The demographic transition begins with changes in mortality that results in a population that lives longer and stays healthier. A longer life expectancy causes fundamental changes in the way that people live. Attitudes towards education, family, retirement, the role of women and work tend to shift. A society has the chance to experience deep-rooted changes in its culture, as its people become more valuable assets. For example, the positive correlation between education and earnings is well known.

As life expectancy increases, parents are likely to choose to educate their children to more advanced levels. Healthier children, in turn, tend to experience greater cognitive development per year of schooling than their less healthy counterparts parents also know that there is a good chance that each child will benefit from schooling investments over a long working life and, with fewer children, can devote more time and money to each child. The result of this educational investment is that the labor force as a whole becomes more productive, promoting higher wages and a better standard of living. Women and men therefore tend to enter the workforce later, partly because they are being educated for longer, but they are likely to be more productive once they start working (Marini, M., (2004)).

All these mechanisms are heavily dependent on the policy environment. A growing number of adults will only be productive if there is sufficient flexibility in the labor market to allow its expansion, and macroeconomic policies that permit and encourage investment. Similarly, people will only save if they have access to adequate saving mechanisms and have confidence in domestic financial markets (Alesina, A., Glaeser, E., (2004)). The demographic transition creates conditions where people will tend to invest in their health and education, offering great economic benefits, especially in the modern world’s increasingly sophisticated economies. But governments invariably play a vital role in creating an environment where high quality health and education provision is possible – necessary steps to make the most of their country’s demographic opportunities.

b. Savings as a factor of development

All long-run growth theories imply that a country can grow faster by investing more, in human or physical capital or in R&D, but that a country with international capital markets cannot grow faster by saving more - domestic saving is not an important ingredient in the growth process because investment can be financed by foreign saving.

From the point of view of a standard theory of economic growth, positive cause and effect relation between domestic savings and economic growth may appear in advanced economies, in which quite high domestic savings may constitute an essential source of financing domestic investment and an economic growth factor, without the necessity of using foreign investment. For the same reason, in the poorest countries there should not be any relation between domestic savings and economic growth, as these countries, in order to finance their investment, use mostly foreign savings as their domestic savings are quite scarce.

The demographic transition also encourages the growth of savings, thus improving a country’s prospects for investment and growth. There is an accounting and a behavioral effect at work. The young and the old consume more than they generate, unlike working-age people, who tend to have a higher level of economic
outputs, and also a higher level of savings. Further, people tend to save more between the ages of 40 and 65, when they are less likely to be investing in their children and the need to prepare for their retirement is becoming more pressing. So when large numbers of baby boomers start hitting their forties, national savings will tend to rise. Incentives to make certain choices can reinforce this tendency to save among the new young baby boomers. Improved health, and longevity, make saving easier and more attractive. A healthy population must plan far in advance if it is to maintain its standard of living through decades of retirement.

Additionally, private household savings can provide the capital accumulation needed to finance growth. Further work is needed, however, to take account of the institutional features of pension systems when assessing the importance of the demographic transition to the determination of national savings.

c. Labour supply as a factor of development

A feature of modern economic growth is the changing trend in aggregate labour supply. The changing trends in aggregate labour supply that one finds in long runs of data are usually neglected by modern growth theory, which typically assumes a constant rate of labour force growth.

The demographic transition affects labor supply in two ways. There is an essentially mechanical effect, based on the regular and inevitable aging of the baby boom generation (Baby Boom Generation refers to the persons borne between 1944 and 1964, when the birth rate was very high). When this generation is between 15 and 64, it is more likely to be working, thus lowering the ratio of dependents to non-dependents. During the peak working years of 25 to 59, this effect is especially strong. The number of people who would like to work (labor supply) therefore gets bigger, and provided the labor market can absorb the larger numbers of workers, per capita production increases.

3. The cultural influence upon economic growth

Culture (Latin: cultura, lit. "cultivation") is a modern concept based on a term first used in classical antiquity by the Roman orator, Cicero: “cultura animi” (Harper, Douglas (2001). The term "culture" appeared first in its current sense in Europe in the 18th and 19th centuries, to connote a process of cultivation or improvement, as in agriculture or horticulture. In the 19th century, the term developed to refer first to the betterment or refinement of the individual, especially through education, and then to the fulfillment of national aspirations or ideals. In the mid-19th century, some scientists used the term "culture" to refer to a universal human capacity. For the German nonpositivist sociologist Georg Simmel, culture referred to "the cultivation of individuals through the agency of external forms which have been objectified in the course of history" (Levine, Donald (1971)).

In other to determine the impact of culture on economic growth, a three steps approach is needed. Firstly, there is a direct impact of culture on expectations and preferences. Secondly, one has to take into consideration that those beliefs and preferences have an impact on economic outcomes (for example, different religious affiliations and ethnic background are associated with different preferences for redistribution).

To claim a causal link, however, a third step is necessary. All work on culture and economics faces the problem that causality is likely to go both ways – from culture to economics and from economics to culture. The above definition of culture suggests an answer: to focus only on those dimensions of culture that are inherited by an individual from previous generations, rather than voluntarily accumulated.

Moreover, religious practices, even when they respond to economic conditions, are modified over time only at centuries or even millennium frequency. In this respect, the cultural aspects that should be considered are religion and ethnic background that can largely be treated as invariant over an individual’s lifetime.

Over years, the decision of saving money has been analyzed as the culture’s main mechanism to influence the economic preferences, through the relation between religion and the preference for savings (indicator measured as the percentage of population that educate their children to make savings). The studies performed in this respect showed that religious people are more likely to educate their children to make economy than
the non-Christians (Birdsall, N., Kelley, A., Sinding, S., (2001). Furthermore, it can be stated that sharing a specific religion can have an influence on a country’s economic performances.

Parents have a natural tendency to teach their children what they have learned from their own parents, without a full reassessment of the current optimality of those beliefs. Thus, even if cultural norms were efficient when they were introduced, they might continue to be taught even after they have become inefficient.

People take many decisions in life in which they lack previous experience: which college to attend, which profession to undertake, how much to save for retirement. In these situations, choices are usually based on prior beliefs, in which culture play a significant role.

Going further, culture can be studied through three main elements – ethnicity, language and religion. This can be explained by the fact that the ethnicity provides a genetic basis in which socioeconomic behaviors between groups of people can be easily differentiated, the language is an effective tool of communication and the religion can provide insights into the characteristics of culture.

A glance at the history reveals that the distribution of language speakers has reflected the distribution of economic power in the world. Latin, for example, was a universal language in Europe during the Middle Ages and the Renaissance (Rongxing, G., (2006). French was once known as the universal language of diplomacy, and English today is often said to fill such a role in world commerce. During the supremacy of the Soviet Union, Russian was the language which was thought in most countries. The decline of the Russian power has been accompanied by a parallel decline in the use of Russian as a second language. Since the late twentieth century, China’s economic power has stimulated the learning of Chinese in other countries. However, none of those has been able to become a universal language. With the aim of making international communication simpler, numerous efforts have also been made to create artificial languages during the past centuries (Volapuk, created by Johann Martin Schleyer in 1880, or Esperanto, created by Ludwig L. Zamenhof in 1887).

4. Social and economic context in Romania

Firstly, the paper reveals the social and economic context in Romania, in comparison with other European countries, in order to identify the main differences between those countries and the source of problems related to the Romanian economy.
After two years of negative readings and a cumulated GDP contraction of more than 8%, growth resumed in 2011 with the economy growing slightly above potential by 2.5%.

The labour market remained subdued in 2011: according to the Labour Force Survey (LFS), the unemployment rate for the age group 15-74 remained at 7.4% in 2011. Alarming, young people remain a particularly vulnerable group as the unemployment rate for employees below 25 years continued to increase and reached its highest level of 25.4% (LFS) in the last quarter of 2011. The overall employment rate remained low in 2011 at 58.5%. Unit labour costs have declined by 3.7% in 2011, enhancing the competitiveness of the economy. Labour market conditions are expected to improve over the forecast horizon with unemployment forecasted to decrease to 7.2% in 2012 and to 7.1% in 2013 (www.europa.eu). Even worth, on a long time prediction the number of contributors to the public budget will decrease constantly.

Fig. 2: Number of contributors to the public budget / number of retirements (source: European Commission)

Average salaries in Romania belong to the lowest of Europe and even the double digit growth rates experienced during the last years of economic boom did not raise them to a European average level. And: several years of double digit would be needed to achieve a convergence with Western European average salaries. A simple example might illustrate this notion: If we take average industrial labor costs from 2002 for Germany (32 EUR) for Germany and for Romania (1.5 EUR) and make the realistic assumption that labor costs will grow each year by 3% for Germany and the unrealistic assumption that they will grow by 20% for Romania each year a catch up for Romania would have been achieved in 2022.

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Salary (Gross) RON</td>
<td>1,682</td>
<td>1,767</td>
<td>1,836</td>
<td>1,920</td>
<td>2,020</td>
<td>2,130</td>
<td>2,282</td>
</tr>
<tr>
<td>Average Salary (Gross) EURO</td>
<td>457</td>
<td>416</td>
<td>432</td>
<td>457</td>
<td>487</td>
<td>520</td>
<td>563</td>
</tr>
<tr>
<td>Average Salary (Net) RON</td>
<td>1,309</td>
<td>1,350</td>
<td>1,403</td>
<td>1,464</td>
<td>1,539</td>
<td>1,620</td>
<td>1,734</td>
</tr>
<tr>
<td>Average Real Wage Growth %</td>
<td>16.50%</td>
<td>-2.30%</td>
<td>0.20%</td>
<td>1.10%</td>
<td>2.30%</td>
<td>2.70%</td>
<td>4.60%</td>
</tr>
</tbody>
</table>

Fig. 3. Romania – Average Gross and Net Salary Data and their Growth. The data represents the current estimates of the CNP (Comisia Nationala de Prognoza), Romania
As a consequence of the evolution of the Romanian salary, the income stopped being an adequate indicator of the standard of living. Furthermore, there are two main sources of the aforementioned evolution: the decrease in the number of employees and the salary clustering, which means that high-value salaries increased significantly, while small-value salaries continued to decrease.

Since 1990, the United Nations Development Programme (UNDP) has calculated the HDI and included it in its Human Development Report. It measures the average achievements in three basic dimensions: a long and healthy life, access to knowledge and a decent standard of living. The HDI emphasises that aspects other than economic activities and their growth (namely GDP and its growth rate) are important for development, including life expectancy, literacy and enrolment rates. This approach argues that income, commodities and wealth are means to an end. They do not constitute a direct measure of the living standard itself.

Romania fell into the category of countries with a medium development level, being behind many countries which adhered to European Union later, like our country, but which fell in the group of countries with a high development level (Hungary, Poland, Czech Republic, Estonia, Lithuania, Latvia, Slovenia, Greece, Malta, Cyprus etc.).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hybrid HDI</td>
<td>0.643</td>
<td>0.677</td>
<td>0.708</td>
<td>0.725</td>
<td>0.723</td>
<td>0.702</td>
<td>0.713</td>
<td>0.755</td>
<td>0.785</td>
</tr>
<tr>
<td>New HDI</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>0.688</td>
<td>0.674</td>
<td>0.690</td>
<td>0.733</td>
<td>0.767</td>
</tr>
<tr>
<td>Old HDI</td>
<td>x</td>
<td>x</td>
<td>0.786</td>
<td>0.792</td>
<td>0.786</td>
<td>0.780</td>
<td>0.788</td>
<td>0.824</td>
<td>x</td>
</tr>
</tbody>
</table>


Calculated according to the new methodology in 2010, HDI in Romania recorded a significant increase, from 0.688 in 1990 to 0.767 in 2010, a level which places our country among the countries with a high level of development, on position 50. Although for the first time Romania comes ahead of Bulgaria (position 58), our country however is situated on the last but one position among the EU member states.
5. Conclusions

Both cultural and demographic factors have specific influences on the economy. More specifically, the culture defines the way the population’s preferences, the way they make decisions, the perception upon life and the future prospects. On the other hand, the demographic factors are important, mainly because of the population structure and the capacity of working and contributing to the GDP formation.

For obtaining economic growth, countries can focus on social development, by increasing life expectancy, by improving education and raising the expected years of schooling, by reducing poverty (more specifically, the population at risk of poverty) and also by controlling the unemployment rate. As shown above, both cultural and demographic factors have specific influences on the economy. Continuous investment in human capital leads to sustainable development and should be one of the basic objectives of any country wishing to achieve high standards of living and economic benefits.

6. Acknowledgements

This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/89/1.5/S/59184 „Performance and Excellence in Postdoctoral Research in Romanian Economics Science Domain”.

7. References