INVESTMENTS, AN ECONOMIC GROWTH FACTOR

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ABSTRACT: In the national economy system, investments are an accelerator for multiplying receipts of material and labour resources thus causing a growth of disbursements from the system. Therefore, in the system of factors influencing the economic development of a country, investments have a strategic role. This is why, investments are the main method for achieving economic growth.

KEY WORDS: investment, factor, national economy, labour, products

Economy is facing more and more technical and scientific implications, whose “products” require significant investments funds for their application in production. Mechanization, automation, robotization and cybernetization of production cannot become realities without the society spending significant investments funds.

For the developing countries, investments have to be seen as the sole factor allowing to decrease unbalances compared to economically advanced world countries. Only through adequate use of investment resources, new jobs can be created, gross domestic product per inhabitant can be increased, labour efficiency can be increased and hence people’s quality of life. The internal unbalances of a country between branches, areas cannot be removed or decreased without the capitalization of local, natural and working resources, without creating new economic objectives possible through the allocation of investments funds. On the other hand, investments are the main factor of national economic structure modernization, because all the changes developing in the technological and technical and economic structure, the possibility of economy to keep up with the technical and scientific requirements are conditioned by investments. Investments are a significant qualitative, intensive factor of national economic structure modernization.

Investments are mostly an extensive factor of economic growth which makes us see it in tight interdependence with intensive factors, with the ones causing economic growth of resources in the system of national economy. It is necessary to increase national income both extensively (new investments) and especially intensively (labour efficiency increase, reducing material costs etc).

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Investments influence on economic development is conditioned by the structure of tangible asset it is materialized into. It is the weight the active elements of fixed assets hold – machines, plants and equipments – through which technological process is developed; the higher this weight is, the greater their economic efficiency. The achievement of a dynamic and balanced economic growth depends, to a large extent, on the development of its own basis of raw materials, drawing new natural resources in the economic growth, superior processing and efficiency of all national resources. The development and diversification of services, scientific researches, health protection, living conditions improvement, extension of trade network, as well as social and cultural endowments in accordance with the growing requirements of the population require investments. This is because the material basis has to be first of all developed and modernized for all these activities which cannot be achieved without investments. Economic growth in all countries has caused and causes numerous opinions, as well as patterns regarding the same economic growth. Among the factors influencing the level of this growth we can mention: human potential, volume and quality of fixed and circulating capital, existing natural resources and drawn in the economic circuit, technical and scientific progress, organization level of production and work, exterior trade efficiency and allocated and achieved investments.

Economic growth and welfare of a country essentially depend on the expansion of invested capital, as proven by the impetuous development of USA. USA economic growth rate has based on the fact that investments have been 21% of the gross domestic product (GDP), with peaks of 28% during prosperity period, while in times of war or crisis, the weight of investment has considerably decreased. The role of investments in market economy starts from the goal of investments, in the meaning that these investments mean the growth of a portfolio of assets with the two components: Fixed assets, that can be incorporated (buildings, plants), not incorporated (patents, technologies, software) and financial (shares, bonds, other valuable assets), thus with long time of use; Circulating assets, necessary for current operation and hence undergoing a fast rotation, referring to material stocks and liabilities on clients, as well as production debts. The problem occurs for the technical renewal of all branches and fields in the national economy, but this renewal means internal and external financial efforts that have to be supported based on the current internal production and through the contribution of foreign investors. Renewal means orienting investments towards fixed assets that would draw a certain structure of circulating assets.

In Romanian economy, the first problem consists of property restructuring in order to institutionalize the three types of properties found in all countries: private, public and mixed property, along with the restructuration of Romanian economy, based on a real, national, democratic and humanistic conception, complying with national interests and with the international economic life. A special importance is given to the role of investments in the strategy of production capacities restructuring. This is because production capacities restructuring at microeconomic level cannot develop within the investment process. Two trends can be found in the investment activity: investing in order to produce better and investing in order to survive. Passing to market economy is for many companies, first of all a matter of survival. Survival is just a way of delaying and preventing economic bankruptcy. Practice reveals the significant way
Investments have in supporting active strategies of companies, like: making new products, conquering new markets, thorough specialization, and fast adaption to client’s requirements. Promoting these strategies allows better chances of success to these companies aiming only reduce costs, always making the same product. Economic agents’ interest is to establish and strengthen their position on the market, to analyze the offensive component of investment strategy in order to restructure production capacities and permanent adaption in the mechanism of demand and offer. In conclusion, in all countries, they want to promote an investment policy, and in Romania, efficient investments achievement is an essential matter in the economic growth process.

**Investment policy. Investment: strategic financial decision.** Any capital placement, either long-term or short-term, in order to achieve profit is an investment. Whether funds are placed in intangible assets or circulating assets, investment is a fixed capital significant as volume and lasting in time, aiming to achieve a future adequate profitability. Therefore, the investment decision leads to a present fixed capital hoping for a further profitability to be achieved in several accounting periods.

Investment decision is a part of the general policy of the company. It is not just a fixed capital but also a useful activity placed in a certain segment of the market, involving a certain amount of natural, human and money resources, initiating and maintaining relations with companies in related fields of activity, whose turnover is positively influenced. Considering the high cost of investments, the first problem is finding and choosing the necessary sources for financing, as well as assessing their profitability, comparing financing costs with predictable financial results. Investment choosing procedure supposes along with assessment, the comparison of considered projects profitability in the context of general strategy of the company and difficulties in achieving financing sources. If the selection of investments projects is made depending on financial criteria, one has to also consider the priorities dictated by the company’s policy within its development strategy. It is obvious that every project shall be adopted based on a commercial, technical and financial study that would justify investment’s opportunity. Financially, the investment causes high initial costs that have to be followed in the view of funds receipts, recovery financial flows respectively predicted to have a distributed place for the entire period of the economic life of the task (usually, duration of economic life or normal operation duration).

If initial costs for achieving fixed assets and negative flows or immobilization flows are know from the general estimation, future financial flows, also called positive or entry flows consisting in annual depreciations and benefits to be achieved from the use of the objective, have to be quantified. After establishing positive and negative financial flows they shall be compared in order to establish the opportunity of the investment. Establishing positive financial flows is relatively difficult to achieve from at least two reasons: first of all because there is always certain incertitude of predictions and second of all, for the weight of separating the contribution of a certain fixed asset to positive general flows (benefit, especially) of the company. All these are completed by the difficulties to quantify fiscal incidence, the contribution of the project to the gross profit that has to be corrected with the profit tax, respectively.
An investment policy is defined depending in the objectives engaged by a company having the necessary resources. But the actual fulfilment of objectives, formation of resources and incomes generated by the exploitation of the objective shall be distributed on several consecutive periods, reason why it is necessary to determine their value at a given moment, meaning that value which can be assigned to fixed liabilities in the investment process. Accounting approach considers patrimonial (market) value, the equivalent monetary value of purchase/sell of an asset respectively at a given time and that can be the purchase value, liquidation value or replacement value. Unlike it, the financial approach considers the economic value of an investment, given by the size of receipts flows updated based on the opportunity cost economically determined proper to the investment project and the profitability degree of other offered opportunities. Any investment decision or the decision to keep a built objective occurs in the conditions when the economic value is higher or at least equal to its market value, just as any disinvestment decision shall be taken when the economic value < market value. The profitability of an investment project shall be established not depending on the normal operation time of the objective, but depending on its economic life duration, meaning the period in which the objective generates adequate profitability. When the normal operation duration is long, from reasons of prudence, there is the practice to determine entry financial flows (positive), on a shorter period - for ex., 10 years - following that the rest be considered remainder value, corrected with fiscal incidence (sale related value added tax to third parties of the remainder value) shall increase the entry flow in the last year of the objective economic life duration.

State’s investment policy in economy. Investments play a central role, multiplying economic growth, influencing both demand and market offer. Practically, things develop as follows: the company benefiting from the investment addresses to providers of plants, entrepreneurs, in order to achieve the project. If they are from the country, the investment decision causes certain movements for the investor’s country and economy: it increases internal providers’ turnover, increases the remuneration fund, benefits, state taxes, increases related branches like light industry, food industry etc. It results that investing in a certain field has a multiplying role upon the generated economic activity. If providers or entrepreneurs are external, the growth of turnover and benefits shall positively influence the economy of goods and services exporting country. The commercial balance of the investor’s country shall be demanded, and positive effects shall influence exporting country’s economy. Consequently, the state is interested to interfere in order to stimulate internal investors and create favourable conditions in order to resist in the international competition fight. Practically, all countries with developed market economies are involved in economy in different forms. Intervention policy of states in economy follows certain objectives and shall be achieved through various techniques.

REFERENCES: