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***Disertation at Academic Ceremony of Awarding
the University of Oradea Honor Degree of Doctor Honoris
Causa to Professor Dr. Gheorghe Zaman,
Correspondent Member of the Romanian Academy,
on May 27, 2011***

CHALLENGES, VULNERABILITIES AND WAYS OF APPROACH IN ROMANIA'S EXTERNAL DEBT SUSTAINABILITY

Zaman Gheorghe

Correspondent Member of the Romanian Academy

Introduction

The notion of a country's external debt, measured by a complex system of static and dynamic indicators, knows a lot of approaches and opinions in the literature, more or less convergent, complementary and advanced in terms of factors.

Indicators of the external public and private debt on short, medium and long term provide a snapshot of indebtedness of the country and are the most researched domain in the literature, including national and international financial bodies, which adopt a series of classification criteria of countries in terms of size and dynamics of external debt.

In this study, we intend to make an analysis of the volume, dynamics and structure of the current Romania's foreign debt, showing the challenges for national economic policies, present and perspective, the internal and external vulnerabilities and ways of approaching the external debt sustainability.

According to the definition given by UNCTAD, a sustainable foreign debt is that level of debt which:

- allows the indebted country to pay all current and future debt service **without resorting to restructuring** or rescheduling;*
- prevents accumulation of arrears and defaults;*
- in parallel provides an acceptable level of growth in the lending country.*

Until recently, Romania was considered a country with a low external debt. Currently, the situation has changed, meaning that this debt, somewhat neglected in the early transition period¹ has become a serious threat to present and future sustainability of economic development in Romania.

*In general, external debt concerns financial and economic interests of all parties especially creditors and debtors, by the formula "win-win", so that, currently, some countries have **surplus** of balance of payments, usually the most developed and economically healthy, while others have **deficits** that, in extreme situations, can lead to inability to pay the debt, which means tough measures and policies, especially for the living standards of many generations of taxpayers.*

Chapter 1. Features of the volume, structure and dynamics of Romania's foreign debt

Romanian cooperation with international financial institutions is not recent. If we don't consider the period before 1990, we can say that the period from 1991 to 2011 saw some stand-by arrangement with the IMF which Romania has made for various reasons, the latter regarding the impact of international economic and financial crisis which manifested itself in Romania stronger and longer than in most of the developed EU countries and in some new EU member states.

During 2005-2010, total external debt of Romania increased from 38.511 billion USD to 120,436 billion, representing a proportion of 75%. In other words, there was an increase of about 3.12 times, this representing the macroeconomic indicator with the highest dynamic the result of which was to record an absolute record, unprecedented in the economic history of the country, in terms of the size of the indicator, and its dynamics under the circumstances in which the level of the country's economic and social development of 1989 was reached in 2003-2004, while the GDP growth was only 138.1% during 2002-2009, which leads us to believe that the elasticity of GDP to external debt was very low.

¹ Several studies have shown the need to pay attention to Romania's foreign debt even since the early years of transition (see Gh.Zaman, 1993, Datoria externă obsesia de care nu scăpăm (External debt- the obsession we cannot escape from), *Capitalul (The Capital)*, June 26, pg.3).

Table no.1.1 Total external debt of Romania in 2005-2010'

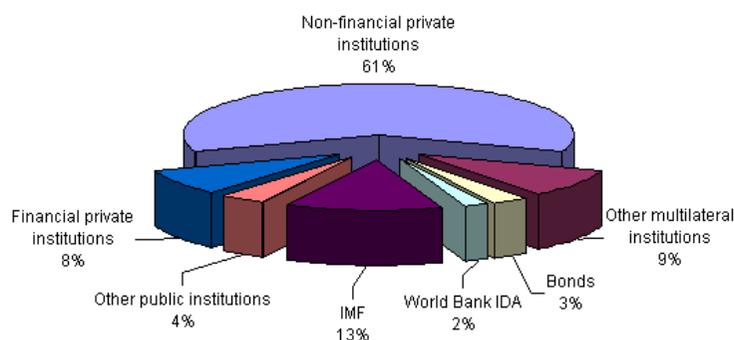
billion U.S.D.

	2005	2006	2007	2008	2009	2010	2010/ 2005 %
In billions of U.S. dollars							
Total external debt of which:	38,5	51,7	80,2	105,7	111,8	120,4	313
Public	14,1	13,4	14,4	16,4	27,8	37,3	265
Loans	6,2	6,0	6,4	7,9	19,7	28,7	462
Multilateral	6,1	5,9	6,3	7,8	19,6	28,7	470
Bilateral	0,1	0,1	0,1	0,1	0,07	0,08	80
Bonds	3,3	3,2	3,3	3,9	3,9	3,8	115
Others ²	4,5	4,2	4,6	4,5	4,2	4,7	104
Private	23,3	37,0	64,8	88,95	83,8	82,9	356
Short term	7,8	15,8	26,8	29,9	19,3	22,9	294
Long term	15,6	21,3	38	59,2	64,5	60,1	385
as a percentage of GDP							
Total external debt of which:	38,8	42,1	47,0	51,4	68,3	74,9	193
Public	14,2	10,9	8,4	8,0	17,0	23,2	163
Loans	6,2	4,9	3,7	3,9	12,0	17,9	289
Multilateral	6,1	4,8	3,7	3,8	12,0	17,8	292
Bilateral	0,1	0,1	0,1	0,1	0,0	0,1	100
Bonds	3,3	2,6	2,0	1,9	2,4	2,4	73
Others ²	4,6	3,4	2,7	2,2	2,6	2,9	63
Private	23,5	30,1	38,0	49,3	51,2	51,6	219
Short term	7,8	12,8	15,7	14,5	11,8	14,2	182
Long term	15,7	17,3	22,3	28,8	39,4	37,4	238

¹⁾ End of year unless otherwise specified, ²⁾ Include private bank debt and other public debt.

Source: NBR, IMF data and own calculations.

Figure no. 1. Institutional structure of the total external debt by type of institutions in 2010



Data in Table no. 1.1 and Figure no.1 suggest some features of Romania's foreign debt, which can lead to some real challenges for present and future national economy, namely:

- the highest dynamics of external debt over the period 2005-2010 beyond the average of 313% for total foreign debt, there have been public multilateral loans, mainly due to big increases in 2008-2010, because of the crisis, followed by long-term private debt, which, unlike the public debt, after especially large increases in 2005-2008, decreased in 2010, when private sector lending became more expensive and more restrictive;

- in terms of weight in the total external debt it is by far due to private external debt of 68.8% of which 18.3% on short term and 49.9% on long term.

As for the fact that private sector is the one with the highest level of external indebtedness we shall note that there have been opinions stating that the private economic agents are free to contract external debt, as much as they can or will. This view, for the whole of sustainable economic growth in Romania, is totally wrong because:

- a part of public and private debt is guaranteed publicly so the state is to pay if the private firm enters into default, a situation that reflects unfavourably on all taxpayers;

- even the private external debt, without public guarantee, is relevant for the state because private economic collapse in case of default of debt payment, by the effects propagated (negative externalities), entails, directly or indirectly, negative repercussions on the national economy as a whole and not seldom does the state have to intervene, as was the case of the banks in difficulty in developed countries during the present crisis, when they received financial support from the state, investment injections, or were taken by the state on the ground that they were too large (important) to crack under the slogan "too big to fail"(!).

This is therefore the first challenge in terms of **complexity of the relation** between

public and private external debt that requires further examining, taking into account the quasi-symbiotic coexistence of the two types of debt, and that neither the state nor the private firms can be **indifferent to bankruptcy or insolvency**, both of one and of the others, due to the acknowledged or disregarded, assumed or denied, relational context of the public-private, public-public and private-private partnerships. This challenge forces us to rather a rejection of the destructive competition, the market individualism, autarchy and selfishness promoted by some experts and to better cooperation and solidarity.

Another conclusion that can be drawn from the effects of crisis and not only is that neither the private sector nor the public one are exempt from the developments of the "business cycle", of recessions and crises, no matter how much they would advocate one or the other. For this reason, the use of strategic positive sum games formula such as "win-win" seems to be the wisest solution.

- **The ratio of the total external debt to GDP** gives us clues about the efficiency of the use of potential resource representing external borrowing - expressed as magnitude of GDP (effect) of production that reflects one unit of effort, which in this case is foreign debt. In other words, a medium and long term growth of external debt, faster than of GDP, generates doubts about the efficiency of the use of the borrowed money. Not vainly does the phrase "live a life on debt" have negative connotations. If in isolated cases it may be a way to "get through", even to be able to live, at the societal level such a generalization can only have negative effects, which, whether we admit it or not, practice, reality induce into us sooner or later.

In connection with this aspect of the correlation of GDP and external debt, we want to mention that there are experts who believe that having a large foreign debt is as a sign of credibility, internally or externally, and to make efforts to pay foreign debt would be a "big mistake". In support of such

reasoning is brought, in my opinion totally unconvincingly, the case of periodic exemptions from external debt of **heavily indebted developing or underdeveloped** countries that enter default as well as deleting the external debt of the central European countries that have turned from a controlled, centralized economy to a competitive market economy. These examples cannot be considered other than exceptions, rare cases, which strengthen the rule of preserving the ability to pay, of solvency, based on loans designed, managed and reimbursed efficiently.

Therefore, I think that depending on the level and characteristics of the economic and social development of each country, there are **optimal or sustainable external and domestic** debt levels, on different time horizons, which only the complex, multidisciplinary approaches of teams of professionals can quantify and substantiate.

In conclusion, it can be said that the weight of the total external debt or of its individual components in GDP, is rather determined by taking into account the complex internal and external factors acting in a national economy and not necessarily the systems of standard indicators or criteria, more or less stable over time and established by various bodies and specialists. This does not mean one should neglect the standard criteria and benchmarks, but on the contrary, to see how adequate they are in each peculiar case. Even the

applicability, the operational character, the convergence and adherence criteria of EMU have raised numerous objections not only of theoretical and methodological nature but mainly practical.

The evolution of external debt of Romania on quarters 1-4 2010 and quarter 1, 2011

In the last five quarters, the year 2010 and quarter 1-2011, Romania's total gross external debt increased continuously (Table no.1.2), which is more a cause for concern than a safety mark because such dynamics show that the effects of the crisis and the policies adopted to counter them so far have not proven to stop the urgent need to increase, at an unsustainable pace on the medium and long term, the indebtedness of the country, through new loans of considerable sizes, even if they are called "preventive" (precautionary).

The largest increases were reported for long-term debt of the government and the banks, respectively 1.6 billion euro and 1.2 billion euro, amounts beyond the possibilities of reimbursement, as long as its maturities make short-term debt reach more and more overburdening levels, relatively difficult to honour.

So, another challenge for the Romanian foreign debt sustainability would be the very taking of actions to stop / slow down this rapid dynamic of the burden of its external debt.

Table no.1.2. Structure on institutional sectors, maturities and financial instruments

	T1/2010	T2/2010	T3/2010	T4/2010	T1/2011
				<i>Mil. euro</i>	<i>- end of period</i>
Total gross external debt	86 527,9	87 785,0	89 184,0	90 908,4	93 386,2
I. GROSS EXTERNAL DEBT	71 484,0	72 244,8	73 209,2	74 918,8	77 179,7
1. Government	17414,3	17 304,8	17712,8	18 394,6	20 193,7
Short-term	1 096,0	967,0	1 232,0	1 491,0	2 217,0
Money market instruments	1 061,0	929,0	1 132,0	1 376,0	2 141,0
Loans	0,0	0,0	0,0	0,0	0,0
Cash and deposits	35,0	38,0	100,0	115,0	76,0
Long-term	16 318,3	16 337,8	16 480,8	16 903,6	17 976,7

	T1/2010	T2/2010	T3/2010	T4/2010	T1/2011
				<i>Mil. euro</i>	<i>- end of period</i>
Bonds	3 790,2	3 544,2	2 848,3	2 863,0	3 010,8
Loans	12 527,0	12 792,4	13 631,5	14 039,3	14 964,6
Trade credits	1,1	1,2	1,0	1,3	1,3
2. Monetary Authority	7 178,5	7 717,7	9 004,5	9 104,6	9 673,1
Short-term	57,0	79,0	48,0	22,0	6,0
Loans	0,0	0,0	0,0	0,0	0,0
Cash and deposits	57,0	79,0	48,0	22,0	6,0
Long-term	7 121,5	7 638,7	8 956,5	9 082,6	9 667,1
Bonds	0,0	0,0	0,0	0,0	0,0
Loans	7 121,5	7 638,7	8 956,5	9 082,6	9 667,1
3. Banks	21 629,2	21 107,3	21 337,0	22 688,6	22 952,9
Short-term	6 590,0	6 242,0	6 277,0	7 025,0	6 751,0
Loans	327,0	555,0	574,0	1 611,0	1 798,0
Cash and deposits	6 106,0	5 587,0	5 673,0	5 367,0	4 909,0
Other liabilities	157,0	100,0	30,0	47,0	44,0
Long-term	15 039,2	14 865,3	15 060,0	15 663,6	16201,9
Bonds	183,7	120,2	146,3	125,8	130,0
Loans	7411,9	7 460,9	7 243,7	7 310,1	7 555,8
Other liabilities	7 443,6	7 284,2	7 670,0	8 227,7	8 516,1
4. Other sectors	25 262,0	26 115,0	25 154,9	24 731,0	24 360,0
Short-term	4 457,0	5 115,0	4 751,0	4 630,0	4 620,0
Money market instruments	2,0	2,0	15,0	41,0	164,0
Loans	3 116,0	3 264,0	3 097,0	2 956,0	3 079,0
Trade credits	1 339,0	1 845,0	1 637,0	1 633,0	1 377,0
Other liabilities	0,0	4,0	2,0	0,0	0,0
Long-term	20 805,0	21 000,0	20 403,9	20 101,0	19 740,0
Loans	20 642,5	20 841,3	20 259,9	19 989,6	19 665,1
Trade credits	162,5	158,7	144,0	111,4	74,9
II. INTER-COMPANY DIRECT INVESTMENT	15 043,9	15 540,2	15 974,8	15 989,6	16 206,5
- liabilities to affiliated enterprises	18,2	0,5	3,4	9,7	10,0
- liabilities to investors (series available from December 2001)	15 025,7	15 539,7	15 971,4	15 979,9	16 196,5

Source: NBR Data.

The balance of chronic deficit of the balance of payments of Romania is another synthetic indicator relevant to the health of the economy and hence of the sustainability of external debt (see Table no.1.3.). The higher the current account deficit, the more difficult the financing problems.

It is noted that compared to the first quarter of 2010, in the first quarter of 2011 Romania saw a favourable trend to reduce the size of the current account deficit. What is important to note is that, except for component C - Current transfers - that has a growing surplus in quarter I.2011 compared to quarter I.2010,

all other components of the current account balance – the trade balance, the services and the income – recorded **negative values**.

In the first quarter of 2011 the **current account** of the balance of payments showed a deficit of 634 million euros, down by 58.9

percent compared with the same period of the previous year, due to a trade deficit reduced by 64.6 percent and current transfers surplus increase by 68.0 percent (due to net transfers of public administration).

Table no.1.3. Romania's balance of payments and foreign debt – quarter I 2011

- million euro -

	Quarter 1 of 2010 ^r			Quarter 1 of 2011 ^p		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
CURRENT ACCOUNT (A + B + C)	10 725	12 269	-1 544	14 164	14 798	-634
A. Goods and services	9 273	10 839	-1 566	12 482	13 242	-760
a. Goods (export FOB - import FOB)	7 902	9 189	-1 287	11 016	11 471	-455
b. Services	1 371	1 650	-279	1 466	1 771	-305
- transport	396	447	-51	451	560	-109
- tourism - travel	162	244	-82	210	283	-73
- other services	813	959	-146	805	928	-123
B. Income	210	622	-412	251	854	-603
C. Current transfers	1 242	808	434	1 431	702	729

^r Revised data; ^p Provisional data;

Source: National Statistics Institute (INS). FOB imports are calculated based on conversion factor CIF / FOB of 1.0834 determined by the INS.

The financing of the current account deficit in the first quarter of 2011, was made at a rate of 59.8 percent by non-residents' direct investment in Romania, which recorded 379 million euros² (compared with 486 million euros in the first quarter of 2010), of which intra-group loans³ totalled 290 million euros and capital equity consolidated with the estimated net loss 89 million euros. Naturally, the question arises as what sources the current account deficit will be financed from, if in the foreseeable future, the balance of the trade balance, of services and revenues continues to be negative, and current transfers diminish. In addition, privatizable state assets will be increasingly less a source of free currency given that most of them are already

privatized without noticeable materialisation of the foreign currency brought about in public investments or other goods and services.

Medium and long term external debt was on March 31, 2011, of 74,278 million euro (79.5 percent of total external debt), up by 2.5 percent as compared with December 31, 2010.

Short-term external debt recorded on March 31, 2011, a level of 19,126 million euro (20.5 percent of total external debt), up by 3.7 percent as compared with December 31, 2010, representing a fairly threatening level for Romania's capacity to pay.

² Estimative data.

³ Credits of the foreign investor to the resident firm.

**Table no.1.4. Romania's foreign debt on March 31, 2011 *
and external debt service in the first quarter of 2011**

- million euro-

	External debt		External debt service quarter I 2011 ^P
	Balance on 31.12.2010 ^r	Balance on 31.03.2011 ^P	
I. External debt on medium and long-term	72 471	74 278	2 238
1.1. Direct public debt ^{a)}	16 022	17 129	366
1.2. Publicly guaranteed debt ^{b)}	1 708	1 637	61
1.3. Publicly non-guaranteed debt	37 431	37 329	1 581
1.4. Medium and long term deposits of non-residents	8 227	8 516	167 ^e
1.5. IMF loans ^{c)}	9 083	9 667	63
II. Short-term external debt	18 437	19 126	8685^e
Total external debt (I + II)	90 908	93 404	10 923

**) External debt balance is cash-based (not including accrued interest and not matured), also not including allocations of SDRs by the IMF.*

a) external loans contracted directly by PFM (Public Finance Ministry) and by local authorities under the legislation on public debt, including the ones under GEO no.99/2009 on ratification of Stand-By Agreement between Romania and IMF; b) external loans guaranteed by the PFM and the local authorities under the legislation on public debt; c) loans from the IMF under the Stand-By Arrangement with Romania, excluding the amount received from the IMF under the PFM Ordinance no.99/2009; e - estimated data; p - provisional data; r - revised data.

The ratio of external debt service on medium and long term⁴ was 17.9 percent in first quarter 2011, versus 33.3 percent in 2010. The degree of coverage⁵ was 8.2 months of imports of goods and services on March 31, 2011, as compared with 8.6 months on December 31, 2010, which shows a downward trend. These external debt sustainability indicators were not considered to be "warning" indicators for Romania's case even though by some standards they still have

degrees of "freedom" and "monetary" in the sense of deterioration.

Over-consumption and loss of competitiveness of Romanian economy, have contributed in the last two decades to relatively large and persistent current account deficits and, consequently, a rapid accumulation of gross foreign debt. Factors that contributed mainly to this situation were:

- relatively low structural competitiveness of the Romanian economy as a result of obsolete, less efficient technology and quality competitiveness of Romanian exports,
- increase of unit labour costs in Romania compared to its growth in partner countries, even if it is still relatively low,
- the appreciation of national currency even after Romania's EU accession in 2007,

⁴ External debt service ratio on medium and long term is calculated as the ratio between the debt service on medium and long term and the exports of goods and services.

⁵ Coverage of reserves in months of imports is calculated as the ratio of official reserves of the NBR (foreign exchange + gold) at end of period to average monthly imports of goods and services in that period.

- allocation of resources predominantly between the "tradable" sector, exporter of goods and services, and the "non-tradable" sector mainly oriented towards domestic consumption.

At the same time, during this period, an adverse impact was brought by the increase in wages and relative prices in the sectors of "non-tradable" goods and public services (public services, services for domestic consumption, construction) as compared to the wages and prices of branches producing exportable goods and services (industry, tourism, transportation etc.). Only a small portion of the loss of competitiveness was due to higher prices and wages in the "tradable" sector, as compared to increases in Romania's partner countries as well as to the nominal appreciation of the euro.

We know that improving competitiveness is a necessary precondition for the export targeted sectors, enabling the creation of new jobs and the recovery of lost positions in order to maintain external debt to a sustainable level and stop the increase in the external deficits.

In the future, trade surpluses are needed so that negative structural developments in the field of income and transfers can be compensated.

The effort to recover lost competitiveness involves three main, interrelated directions:

- reduction of production costs by lowering certain categories of wages and underserved profits;
- increase of productivity and promotion of tradable sectors with high added value, intended for export which require investments in new technologies and equipments;
- reduction of prices and wages in the country, in the "nontradable" goods and services sector, as compared to the "tradable", to motivate firms to invest and produce in this sector.

Chapter 2. Scenarios of the general framework of the sustainability of Romania's public and external debt

Although there is a whole literature dedicated to models and techniques of analysis and forecast of external debt sustainability⁶, in this chapter we shall present and analyze scenarios made by IMF experts, in collaboration with Romanian specialists, regarding: the macroeconomic frame and the current policies in 2008-2016 in Romania (Table no.2.1); the sustainability of public sector debt (Table no.2.2); the sustainability of external debt from 2008 to 2010.

An analysis of the impact of the financial and economic crisis in Romania compared to other countries (see Table 2.1 and Annexes 1 - 7) highlights several features of the evolution of Romanian economy during the crisis among which:

- the stronger and longer-term impact of crisis in our country compared to other countries;
- relatively modest economic, financial and social performances, poorer in Romania, compared to developed countries and to some new EU member states;
- a more disadvantaged external position of Romania, compared to other countries, for most of the specific indicators.

⁶ Established criteria of debt sustainability (Paris Club on Naples terms), for developing countries, based for example on the following limits:
- rate of present value debt / exports (200-250%);
- rate of debt service ratio / exports (20-25%);
- rate of present value debt / tax revenue (28%);
- the share of exports in GDP (at least 40%); • tax revenue / GDP (20%).

Table no.2.1. Romania: Macroeconomic framework, current policies, 2008/2016

	2008	2009	2010 Est.	2011 Project.	2012 Project	2013 Project.	2014 Project.	2015 Project.	2016 Project.
GDP and prices (annual percentage change)									
Real GDP	7.3	-7.1	-1.3	1.5	4.4	4.3	4.2	4.1	4.0
Real domestic demand	7.3	-12.9	-1.0	1.2	4.3	4.5	4.4	4.2	4.1
GDP deflator	15.2	4.1	4.5	4.7	4.3	4.6	4.9	5.1	5.2
Domestic demand deflator	14.4	4.2	3.5	4.2	4.2	4.2	4.4	4.6	4.7
Consumer price index (average CPI)	7.9	5.6	6.1	5.4	3.4	3.0	3.0	3.0	3.0
Consumer price index (CPI, end of period)	6.3	4.7	8.0	3.7	3.0	3.0	3.0	3.0	3.0
Nominal wages	23.6	8.4	2.6	4.7	6.7	6.9	7.0	8.0	8.0
Real exchange rate based on CPI	-5.0	-7.5	1.9	-0.2	3.3	3.0	3.2	2.5	2.6
Real exchange rate based on GDP deflator	1.5	-8.8	0.4	-0.9	4.1	4.5	5.1	4.8	4.9
Monetary Aggregates (Annual percentage change)									
Broad money	17.5	9.0	6.9	10.3	14.1	14.5	14.9	16.0	16.0
Domestic credit	33.7	0.9	4.7	7.7	8.7	10.4	10.9	11.4	11.8
Savings and investments (in% of GDP)									
Foreign savings	11.6	4.2	4.2	5.0	5.1	5.2	5.2	5.1	5.0
Gross National Saving	19.7	21.1	22.2	19.5	20.1	20.8	21.5	22.0	22.7
Government	1.5	-0.8	0.8	2.7	4.5	5.4	6.0	5.6	5.2
Private	18.2	21.9	21.4	16.8	15.6	15.4	15.5	16.4	17.5
Gross domestic investments	31.3	25.3	26.4	24.6	25.2	26.0	26.7	27.1	27.6
Government	6.3	6.5	7.3	7.1	7.5	8.3	8.5	7.8	7.3
Private	25.0	18.8	19.1	17.4	17.7	17.8	18.2	19.3	20.4
Central Government (in % of GDP)									
Income	32.2	31.4	32.8	33.3	33.7	33.5	33.2	32.4	31.7

	2008	2009	2010 Est.	2011 Project.	2012 Project	2013 Project.	2014 Project.	2015 Project.	2016 Project.
Tax revenues	18.4	17.8	18.1	18.9	18.9	18.7	18.6	18.5	18.5
Non-fiscal income	3.1	2.9	3.9	3.5	3.6	3.4	3.4	3.4	3.4
Grants	0.9	1.0	1.8	1.6	2.4	2.7	2.8	2.2	1.8
Expenditures	37.0	38.7	39.4	37.7	36.7	36.4	35.7	34.7	33.9
Fiscal balance	-4.8	-7.3	-6.5	-4.4	-3.0	-2.9	-2.5	-2.3	-2.1
Structural fiscal balance ^{1/}	-8.5	-7.0	-4.9	-2.4	-1.6	-2.0	-2.0	-2.1	-2.1
Gross public debt (direct)	19.5	27.4	33.2	36.1	36.2	36.0	35.5	34.7	33.8
Balance of payments (in % of GDP)									
Current Account	-11.6	-4.2	-4.2	-5.0	-5.1	-5.2	-5.2	-5.1	-5.0
Trade balance	-13.8	-5.8	-4.8	-5.0	-4.7	-4.6	-4.2	-3.7	-3.2
Balance of services	0.5	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4	-0.3	-0.2
Income balance	-2.7	-1.3	-1.6	-2.2	-2.3	-2.3	-2.4	-2.5	-2.6
Balance of transfers	4.3	3.5	2.8	2.8	2.3	2.1	2.0	1.8	1.7
Capital and financial account balance	12.8	-1.9	1.1	5.3	8.4	8.6	8.3	5.6	6.1
Balance of direct foreign investments	6.7	3.0	2.0	2.9	2.9	2.9	3.0	3.0	3.0
Gross international reserves (bill. euro)	28.3	30.9	36.0	40.4	43.4	44.3	45.1	44.6	47.3
Gross international reserves (months of imports next year)	7.8	7.4	7.8	8.0	7.8	7.2	6.7	6.1	6.1
International investment position (in % of GDP)	-49.4	-62.7	-70.8	-75.3	-72.6	-73.0	-74.2	-72.6	-69.5
External debt (in% of GDP)	51.4	68.3	74.5	78.9	75.4	70.4	65.5	61.1	58.4
Short-term external debt (as% of GDP)	14.7	12.4	15.4	15.9	15.3	14.8	14.2	13.7	13.3
Export volume (percentage change)	8.3	-5.3	24.5	7.2	7.6	8.1	8.3	8.3	8.3
Import volume (percentage change)	7.9	-20.9	9.0	6.7	7.5	8.5	8.4	8.3	8.3

	2008	2009	2010 Est.	2011 Project.	2012 Project	2013 Project.	2014 Project.	2015 Project.	2016 Project.
change)									
Terms of trade (percentage change)	2.8	-0.4	-1.8	-0.7	0.6	0.4	0.7	1.1	1.1
Nominal GDP (in mil. lei)	514,700	498,008	513,641	542,035	590,247	643,816	703,827	770,546	843,680
Nominal GDP (in mil. Euro)	139,666	117,558	122,062	127,237	140,658	156,307	174.317	194.107	216.339

Source: Estimates and projects of the Romanian authorities and the IMF staff.

^{1/} Real fiscal balance adjusted for the automatic effects of the internal imbalances (output gap) and external imbalances (absorption gap) in the fiscal position.

The analysis of data on the economic and financial indicators in Table 2.1 highlights some **challenging issues** of major significance.

It is that economic growth in Romania has gone from relatively high values in 2008, to sudden and major slumps in 2009 and 2010, the real GDP moving from a growth of 7.3% to decreases of -7.1% and, respectively, -1.3% for 2011, the forecast having been 1.5%.

These large and sudden changes in amplitude indicators show a case of strong shock that Romania went through, with severe enough consequences on short, medium and long term.

From these shock cases we should draw lessons in the sense that the way economic decline occurs is important as well and one must always be prepared. Statements of decision makers in Romania in September 2008, that the international financial crisis "**will not have direct effects**" on the Romanian economy, showed how far they were from the truth:

- Projections for the years 2012-2016 show rather relatively equal annual developments, which of course is only a desirable perception of quite variable future developments;
- External debt as weight in GDP increased from 51.4% in 2008 to 78.9% in 2011, and in the next four years until 2016 it should stay at a high level, although with a downward trend, without reaching the level of 2008, which means that the decline triggered by the crisis, in some cases, will not have been recovered even by 2016;
- Inflation is at relatively high rates in 2008-2010 and then stays quasi-constant at an annual level of 3% which by far cannot be considered as a convenient (comfortable) one;
- The ICOR (incremental capital - output ratio) shows a decrease of expected economic performance and efficiency which is contrary to the sustainability of external debt and the ability to meet external debt service. Added to this is the continuation of chronicization of the deficits of the trade, services and income balances, during 2011-2016;
- The gross international reserves are expected to increase to 47.3 billion euros as compared to 36 billion euros in 2010. The sources of growth of such reserves if they consist of new borrowings are not a factor of the strengthening of sustainability.

Table no.2.2 Romania: The sustainability of public sector debt (in % of GDP, unless otherwise specified)

	Current					Projections						Primary balance that stabilizes the debt
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Public sector debt	15.4	17.5	19.5	27.4	33.2	36.1	36.2	36.0	35.5	34.7	33.8	-1.4
o / w foreign currency denominated	7.1	6.6	6.4	15.0	20.4	24.0	21.9	18.4	15.0	11.7	10.0	
Percentage change of public sector debt	-0.3	2.1	2.0	7.9	5.7	2.9	0.0	-0.1	-0.6	-0.8	-0.9	
Flows identified as debt generators (4 +7 +12)	-3.0	-0.1	2.7	7.9	7.8	2.4	0.0	-0.1	-0.6	-0.8	-0.9	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.7	1.3	1.2	0.8	0.6	0.4	
Revenues and grants	32.3	32.3	32.2	31.4	32.8	33.3	33.7	33.5	33.2	32.4	31.7	
Primary expenditure	32.9	34.6	36.3	37.5	38.0	35.9	35.0	34.7	34.0	33.0	32.2	
Automatic debt dynamics	-3.1	-2.3	-1.3	1.8	2.7	-0.2	-1.3	-1.3	-1.4	-1.4	-1.3	
Rate debt / income in public sector	47.6	54.2	60.7	87.4	101.0	108.6	107.3	107.7	106.9	107.0	106.4	
Gross financing need(in%)	1.8	3.9	6.3	8.4	7.2	5.4	4.7	9.1	8.1	5.6	5.0	
in bill. U.S.D.	2.2	6.7	12.8	13.8	11.6	9.0	8.7	18.5	18.2	14.0	13.6	
Scenario with key variables at their historical averages						36.1	34.2	32.5	31.0	29.6	28.4	
No policy change scenario (constant primary balance) in 2011-2016						36.1	37.5	38.8	39.9	41.0	42.1	
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percents)	7.9	6.3	7.3	-7.1	-1.3	1.5	4.4	4.2	4.2	4.1	4.0	
The nominal interest average rate for public debt (in percents)	6.1	5.8	5.2	6.0	5.3	5.5	5.1	5.1	5.0	5.2	5.3	
The real interest average rate (nominal rate minus the change in the GDP deflator, in percents)	-4.5	-7.7	-10.1	1.9	0.8	0.8	0.9	0.5	0.1	0.1	0.0	
Nominal appreciation (increase in U.S.D. value of local currency in percents)	19.4	6.5	-16.5	0.3	-10.7							
Inflation rate (GDP deflator, in percents)	10.6	13.5	15.2	4.1	4.5	4.8	4.3	4.6	4.9	5.2	5.2	
Growth of real primary expenditures (deflated by GDP deflator, in percents)	14.8	12.0	12.4	-3.9	-0.1	-4.5	1.8	3.3	2.2	1.0	1.5	
Primary deficit	0.6	2.4	4.1	6.1	5.1	2.7	1.3	1.2	0.8	0.6	0.4	

Source: IMF

Table 2.2 shows that the weight of **public debt in GDP that increased** from 15.4% in 2006 to 33.2% in 2011, will increase up to 36.2% in 2013, then coming back to 33,8% in 2016. Similarly will the need of gross financing increase which also is not a favourable tendency either.

The nominal interest average rate on public debt will stay at over 5%, which

will strike the debt burden and the possibilities of reducing it.

The inflation rate is not closer to its level in other EU countries either, which means slow evolution of nominal convergence. But what draws particular attention is the rate debt/income that shows an increasing trend during 2010-2013, which means poor performance of the economic policy mix.

Table no.2.3. Romania: the framework of the sustainability of external debt, 2006-2016 (in percents of GDP, unless otherwise specified)

	Current					Projections						Current account without interests that stabilize the debt
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
External debt	42.1	47.0	51.4	68.3	74.5	78.9	75.4	70.4	65.5	61.1	68.3	-7.2
Changes in external debt	3.3	4.9	4.4	16.9	6.2	4.4	-3.5	-5.0	-4.9	-4.4	-2.7	
Identified external debt generating flows	-5.4	-1.4	0.5	10.4	-0.4	-0.5	-2.2	-2.3	-1.9	0.2	0.2	
Current account deficit, excl. Interest payments	9.2	12.2	10.1	2.4	1.8	2.7	3.0	3.3	3.4	3.6	3.6	
Deficit in goods and services balance	12.0	14.0	13.2	6.1	5.5	5.7	5.3	5.2	4.8	4.2	3.7	
Export	32.1	29.2	30.4	30.7	36.0	37.8	37.7	37.6	37.4	37.2	37.0	
Import	44.2	43.2	43.6	36.8	41.4	43.5	43.0	42.7	42.1	41.4	40.7	
Capital inflows that do not generate debt (negative)	-8.6	-5.8	-6.1	-3.4	-2.6	-4.4	-4.2	-4.7	-4.4	-2.5	-2.6	
Automatic debt dynamics	-6.0	-7.6	-3.6	11.4	0.4	1.2	-1.0	-0.9	-0.9	-0.9	-0.8	
The contribution of nominal interest rate	1.2	1.2	1.5	1.8	2.5	2.3	2.1	2.0	1.8	1.5	1.4	
Contribution of real GDP growth	-2.5	-2.1	-3.1	4.3	0.8	-1.1	-3.1	-2.9	-2.7	-2.4	-2.2	
Contribution of price and exchange rate changes	-4.7	-7.0	-2.0	5.3	-2.9							
Residues, including gross foreign assets change	8.8	6.3	4.0	6.5	6.5	4.5	-1.4	-2.6	-2.9	-4.6	-2.9	
External debt ratio of exports (in percents)	131.0	160.7	169.0	222.2	207.1	208.6	199.6	187.3	175.3	164.1	157.5	
Gross external financing need (bill.euro)	21.7	35.9	46.2	34.9	32.5	34.4	40.2	49.8	52.1	51.8	53.9	
In percentage of GDP	22.2	28.8	33.1	29.7	26.6	26.9	28.4	31.6	29.7	26.5	24.8	
Scenario with key variables at their historical averages						78.9	77.0	74.1	71.2	66.4	63.4	
Key macroeconomic assumptions												
Real GDP growth (in percents)	7.9	6.3	7.3	-7.1	-1.2	1.5	4.4	4.3	4.2	4.1	4.0	
GDP deflator in euros (percentage changes)	13.8	19.8	4.4	-9.4	4.4	3.4	5.9	6.6	7.0	6.9	7.1	
Nominal interest rate (in percents)	3.8	3.7	3.6	2.9	3.7	3.3	3.0	2.9	2.8	2.6	2.5	
Export growth (euro in percents)	19.3	15.9	16.6	-14.9	20.6	10.3	10.4	10.6	10.9	10.9	10.9	
Imports growth (euro in percents)	25.2	24.7	13.2	-28.9	15.9	10.2	9.4	10.4	10.0	9.5	9.5	
Current account balance, excluding interest payments	-9.2	-12.2	-10.1	-2.4	-1.8	-2.7	-3.0	-3.3	-3.4	-3.6	-3.6	
Net capital inflows that do not generate debt	8.6	5.8	6.1	3.4	2.6	4.4	4.2	4.7	4.4	2.5	2.6	

Source: IMF

The analysis of external debt indicators (Table no.2.3) highlights several issues challenging the level of sustainability and its impact factors, namely:

- ratio of external debt to GDP has increased by 2011 then following decreases, weaker at first, then more consistent, stabilising at relatively high levels, especially if we consider Romania's ability to pay;
- the rate external debt / exports increases, resulting in a relatively weak capacity of export to be a source of external debt disbursement.

Chapter 3. External debt vulnerabilities

As previously mentioned, a country's external debt is not only a chance for potential beneficial effects, favourable and unfavourable as well, if the management and the administration are not effective and do not take into account risks, vulnerabilities, weaknesses, especially regarding medium and long terms and conditions of repayment and provision of sources of funding.

According to our calculations (G. Georgescu and Gheorghe Zaman) in 2009, Romania's external debt sustainability indicators, on medium and long term, showed a trend of **deterioration compared to previous years** (Table no.3.1.) versus limit criteria conventionally stipulated in the literature and international financial practice.

Table no.3.1. Romania's external debt sustainability indicators, on medium and long term, between 2000 and 2009

%

Indicators	2000	2006	2007	2008	2009	Maximum limit
External debt / GDP	23,9	29,2	31,1	37,9	56,0	50,0
External debt / Export	72,7	91,2	105,5	122,0	181,9	150,0
External debt / Foreign exchange incomes	65,3	73,9	83,5	97,0	149,5	100,0
Foreign exchange reserves / External debt	54,2	80,0	70,6	54,6	47,2	50,0*
External debt service / Foreign exchange incomes	15,0	15,8	16,3	22,7	26,0	20,0
External debt service / Exports	16,7	19,4	20,5	28,5	31,7	30,0
External debt service / Foreign exchange reserves	42,3	26,6	27,6	42,8	36,9	40,0
Foreign exchange reserves / GDP	12,9	23,4	22,0	20,7	26,4	25,0*

* minimum threshold

Source: Own calculations based on data from NBR and from the National Commission for Prognosis.

Moreover, for a series of indicators of external debt sustainability, Romania exceeded "fault rates" in 2009, which lowers its country rating and hinders its access to international capital markets.

Although the IMF, by the recipes it recommends to countries that resort to foreign loans, focuses highly on fiscal and monetary policies, the specialists, for example prof. Calvo G., emphasize that these

policies have not proved effective, requiring complementary actions of structural policies that should help reducing the external financial vulnerabilities, especially in economies suffering from high incidence of bank loans in freely convertible currencies. For this reason, and also because of the effects of the crisis, proposals have been made to **create an emerging markets fund**, as the IMF is the "lender of last resort", which ought to have lent to emerging economies under specific conditions and more conveniently so they can cope with external shocks, with the probability of sudden stop of loans and with the price volatility of the capital inflows.

IMF believes that the emerging European economies during crisis saw large external imbalances, the causes varying from one country to another. However, some similarities can be specified, namely: strong capital flows in the non-tradable sector⁷ that registered a huge increase in price and wage, which eroded competitiveness as capital flows boosted mostly the offer (supply) and the imports rather than the exports, and these contributed to major changes and, ultimately, non-sustainability of the positions of net foreign assets.

Financial integration has played a critical role allowing the funding of the imbalances while the lack of institutions and the lack of the "national" approaches to resolve the crisis have prevented the private sector and the markets from playing a bigger role.

With the banking problems being tackled and solved at national level, the problems of banks and of sovereign debt in the euro area peripheral countries amplified each other. As the financial costs in the private sector depended to a growing extent on the national origin of the borrower, the financial integration was "disintegrated" acting in directions opposite from its objectives.

The re-launching of long-term economic growth is the key issue in Romania. The growth and the convergence cannot be restored to their normal trajectories unless by increasing productivity, with which Romania fought hard but unsuccessfully, in the past two decades, even if it had a relatively large access to foreign capital. To enhance efficiency, we need better policies at national level, along with more effective governance at EU level that could strengthen these policies. Special attention should be given to the supervising of the financial system and to the economic integration due to their vulnerability.

Multi-speed post-crisis reconstruction is underway with some emerging economies going at a higher tempo, and others, on the contrary, still fighting out of the crisis.

The economic science and practices, following the recent crisis, were again alerted to the possibility to predict and take preventive measures against the crisis effects by means of **early warning** that could prevent or determine better training to cope with the crises and maintain the external debt sustainability and the economic development. This, especially since the **economic science is accused** to have been unable to predict precisely in "space and time" the economic crisis occurrence. The charges could be also brought to seismology and other sciences of earth physics which do not foresee the time and place of natural disasters.

Overview of literature on indicators for early warning, sudden stops and changes of current account:

⁷ Sector "nontradable" means those goods and services produced and consumed in the country.

Authors	Main messages
Milesi Ferretti and Razin (1998)	The weak reserves and the trade ratio (terms of trade), unfavourable, may trigger changes in the current account and currency crises
Kaminsky, Lizondo and Reinhart (1998)	Some indicators can announce the possibilities of currency crises. Early warning indicators include current account deficit, over-evaluation, weak growth in exports, reserves to the "broad money"
Berg, Borensztein, Milesi-Ferretti, Pattillo (1999)	Reserves / short-term debt are also early warning indicators of currency crises. Added to these we find the current account deficit, loss of reserves, weak exports and other early warning indicators.
Frenkel and Calvo (2004)	The probability of sudden stop of foreign capital increases the size of the current account initial deficit as a percentage of GDP and decreases with country's openness.
Edwards (2005)	The current account deficit is the key indicator for the crisis.
Mendoza and Terrones	All crises in emerging economies have been associated with the "boom" of loans, although not all credit booms end in crisis.

The vulnerabilities generated by the underperformant management of external debt, in the countries most affected by the current crisis in the EU (Greece, Ireland, Portugal, Spain, Romania), can be analyzed in terms of **fiscal, financial and structural measures**, which, in various proportions present similarities, due to the unique source of recipes and advice which is the International Monetary Fund.

We will refer to some of the possible **vulnerabilities** of the measures taken in Romania for getting over the economic crisis, especially in terms of long-term effects.

- **The fiscal policies** in Romania, to increase VAT from 19 to 24% and increase other taxes, could un-stimulate, on long term, by increasing prices, the demand and hence the supply, especially in the tradable sector which represents the overwhelming part of private economic agents. On the other hand, taxation of prizes and vouchers can act in the same direction, so additional budget revenues expected might be far outweighed by the negative externalities they generate into the real economy,

- **The financial-monetary policies** of growth of the level of prudentiality, supervision,

transparency and improvement of the way of reporting, while, maintaining high interest rates for credits on short, medium and long term, they cannot achieve the expected goals of recovery and economic efficiency,

- **The structural policies** related to reducing employment and wages in public administration, education, research, health etc. also have an adverse effect on the sustainable economic growth and on the opportunities to create funds necessary to finance maturing debt.

Chapter 4. Strategic ways of approaching the external debt sustainability

Public and private external debt is one of the most powerful economic policy tools that can be used effectively to stimulate economic growth but which, if inefficiently used, can cause serious damage to national economies on short, medium and long term.

Governments can contract debts to finance new investments in human or material capital, to outline the country's resources to counteract recessions or to meet the financing needs resulting from exceptional circumstances such as natural disasters or financial crises.

The external debt can create a burden for future generations, as well as a number of vulnerabilities for the investment process and inflation, the resistance to crisis and recession of a country.

Even before the classics of political economy, A. Smith and D. Ricardo, the problem of external debt was a concern of primary importance for economic science, given the potentials that it has, both positive and negative, for countries that receive and grant loans.

Usually, governments borrow on domestic or external market to finance projects of long term development that are targeted to physical infrastructure (roads, bridges, hydroelectric plants etc.) or investment inclusively in the human capital.

Governments may decide to borrow in order to maintain the level of current expenditures without increasing taxes in times of crisis and recession or to finance the costs caused by natural disasters (earthquakes, floods, droughts), wars etc.

On the other hand, states resort to loans to **help the start of the economic growth** at higher rates so as to ensure a higher consumption for the population, redistributing resources from future generations to the present ones.

According to the opinions in the literature, the behaviour of policy makers has a strong **penchant for short and medium term**, i.e. for how long a term of office usually lasts. Regarding indebtedness, issues concerning debt repayment, after this period, interest them less or not at all. Not to say it publicly, many probably think in the sense of "après moi le déluge!"

The external indebtedness of countries with economies in transition has shown in over two decades of emergence of competitive market economy, that high levels of debt can bring a series of serious constraints on the behaviour of an independent monetary policy, especially when the debt is in hard currency and a monetary policy of accommodation can lead to devaluation of national currency and substantial negative effects (Calvo and Reinhart, 2002).

The set of recommendations (conditionalities accepted by governments) on the monetary and fiscal policies of different IMF stand-by arrangements and other international financial institutions also comprises a component aimed, more or less relevantly, at the need to promote real economy restructuring policies supporting sustainable development of the country borrowing. In this respect, we wish to present a viewpoint about the need for new approaches of the relationship between the sectors of industry and services in Romania, considering their role in the process of economic growth and the features of "tradable" / "exportable" and "non-tradable" goods and services.

The problems of specialization and of domestic and international economic cooperation, of the value chains revolve around the strategic approach of cross-conditioning and inter-empowering of the **relations between economic sectors (primary, secondary, tertiary, and quaternary)**, avoiding, for example, trap pseudo-terIALIZATION that many transitional economies entered into, exaggerating the role of the development of services predominantly speculative, particularly financial ones.

More and more experts in developing countries consider that reducing the weight of manufacturing industry in GDP is a "worrying" phenomenon. In a report⁸ by Michael Spence and Sandile Hatshwayo, submitted to the Council on Foreign Relations in New York, it is argued, based on advanced statistical and economic analyses, that "the American economy must find ways to develop employment in **the "tradable" sector** containing industries whose products are sold abroad." This sector, although comprises services, including financial ones **is dominated by manufacturing** industries, which in literature is called "secondary" sector. Getting over the recession and the current economic and financial crisis in most

⁸ "The Evolving Structure of the American Economy and the Employment Challenge" by Michael Spence and Sandile Hatshwayo, Council of Foreign Relations, Working Paper, March 2011.

countries, including Romania, takes place, according to the opinion of several specialists, at the expense of the manufacturing sector, which show greater resistance to the shocks of the business cycles and the crises, compared with other sectors of the national economy, more volatile and vulnerable.

Both in absolute and relative terms (as weight in employment) the "tradable" sector in Romania has declined dramatically in the two decades. The creation of new jobs has been promoted especially in the services sector so as we could follow the increasing trend of this weight manifested in developed economies, notwithstanding that in these countries the process was lengthy, without forcing, but with sectorial complementarities of efficiencies at the macroeconomic level.

In developed countries, in absolute terms, manufacturing industry grew more slowly than services in the last two decades, which meant a reduction in relative weight. A major strategic management error in Romania was discouraging Romanian manufacturing industry, considered the result of inefficient socialist industrialization by decision makers, less or not at all savvy, who relied on the advantages of producing companies from abroad who also had the interest to expand their markets in the emerging Europe countries. Giving up the vast majority of manufacturing industries in Romania and

replacing them with imported products, under the pretext that they are better, more functional, better presented and packed and at a lower cost is, at first sight, a "beneficial" measure of rinsing the national economic of ineffective activities. Finally, it turned out to be counterproductive, because the **most important branches generating and propagating technologic progress** are in this sector as the most fertile and strong domain for R&D and technology transfer. As for the advantages the imported products have compared to local products, perhaps only partially (!) they were valid, but the negative costs are neglected (negative externalities), costs that they have produced in the entire national economy by increasing underemployment, destruction of man-made capital, export of scrap iron and negative impact on natural capital. If all these negative effects, at the macroeconomic societal level, are added with a minus to the benefits and the superiority of imported products in Romania, we shall conclude, not very favourably, that there is a "destruction" of manufacturing industry (deindustrialization), in favour of services industry which, if not strictly regulated by clear legal institutional basis, may largely encourage speculation, polluting consumerism, inflation, weak, unsustainable economic development, as happened in 2009-2010.

Table no.4.1 Structure in percents of employed population, on the main activities of national economy in the period 1993-2009

	1993	2003	2005	2008	2009
Agriculture, hunting and forestry	35,2	34,7	31,9	27,5	28,7
Fishing and pisciculture	0,1	0,1	0,1	0,1	0,1
Industry	30,1	24,8	23,2	29,1	21,1
Constructions	4,8	4,8	6,1	7,8	7,4
Services	10,9	35,7	41,0	42,7	42,8

Source: Romania's Statistical Yearbook 1999, p.81 and 2010, p.91

Data in the table no.4.1 show an overly large increase of the weight of services in total employment (about +31 percentage points) at the expense of industry (-9 pp) and agriculture (-6.5 pp) where a significant growth potential remains unvalued.

Table no.4.2. Contributions (%) to GDP growth on categories of resources in 2004 and 2009

	2004	2009
Total GDP	8,5	-7,1
Agriculture	2,2	-1,0
Industry	1,9	-0,3
Constructions	0,5	-1,4
Services	3,0	-3,0
Net taxes	0,9	-1,4

Source: Romania's Statistical Yearbook 2010, p.322

The structure of GDP growth contribution on categories of resources (Table no.4.2) shows, for example, that in the first year of financial crisis in Romania, the services sector had the largest contribution (42.2%) to the GDP's decline, which outlines their sensitivity and vulnerability, followed by construction sector whose unhealthy and unsustainable growth in 2008 reached exaggerated levels (+33% compared to 2007). Following a policy of promoting the services, especially those of speculative inflationist brokerage, the investment policy saw a structure that clearly disadvantaged the industry and the agriculture (Table no.4.3). Thus, the volume of investment in industry as a percentage of total investments decreased by -15.6 percentage points in the period 1993-2009, and in agriculture by -3 pp.

Table no.4.3. Structure in percents of net investments, on main activities of the national economy during 1993-2009

	1993	2003	2005	2008	2009
Agriculture	6,9	5,9	2,8	3,4	3,9
Industry	49,9	37,6	33,0	31,8	34,3
Constructions	0,2	9,6	9,6	10,9	12,2
Services		46,9	50,3	53,9	49,6

Source: Romania's Statistical Yearbook 1999, 2010, p.357.

It is noted that in 2009, it is the very investment in services that showed the largest percentage decline (- 4.3 pp), which highlights the sector's vulnerability to the crisis shocks and its inability to redress without the real support of manufacturing industries, mining and agriculture.

Table no.4.4 Structure in percents of the sources of investment financing

-% -

	2003	2008	2009
Own sources	68,7	73,0	68,1
Domestic credit	9,2	9,7	7,4
Foreign loans	8,4	3,6	5,3
State and local budget	6,9	8,2	8,8
Foreign capital	0,4	0,6	1,8
Other sources	6,4	4,9	8,6

Source: Romania's Statistical Yearbook, p.357

One of the most important problems of Romania's getting over the crisis and entering the way to sustainable development is represented by the sources of financing the investments.

The data in the table no.4.4 reveal the following:

- the largest share is held by the own sources of the economic agents, weighing more than 68%, which actually highlights the fundamental role of the own effort of the economy to get out of the crisis, and to which the other sources of funding can complementarily be added more or less;
- internal loans have between 7 and 9% of total investment funding, which is a very modest weight, showing that the banks' role

in stimulating investments is still weak, among others due to the high interest rates and the reluctance that they have for medium and long term loans in times of economic turbulence;

- investment financing from public sources has increased in weight in the crisis year 2009 which shows exactly the role that state can have in stimulating investments as a factor of growth;
- foreign capital in the period 2003-2009 had a very small weight in investment financing, which is why an exaggeration of their role in the sustainable growth is not very beneficial;
- other sources of investment financing refer to foreign loans and grants from EU structural and cohesion funds that are still insufficiently accessed.

Table no.4.5 Structure in percents of GDP, on categories of resources, in the years 1999, 2004, 2005 and 2009

- % -

	1999	2004	2005	2009
Agriculture, forestry and fishing	11,1	12,5	8,4	7,1
Industry	27,3	24,9	24,8	27,8
Constructions	4,9	5,9	6,5	11,0
Services	56,7	56,7	60,3	54,1

Source: Data of the National Institute of Statistics. Own calculations, Romania's Statistical Yearbook 2005, p.415

In the crisis year 2009, the weight of services and constructions in total GDP on categories of resources decreased by -6.2 pp and, respectively, -4.5 pp, as compared to 2005, highlighting their weak resistance and sustainability to the crisis shocks.

Table no.4.6 Contribution (%) to GDP growth on categories of usages in 2004, 2005 and 2009

	2004	2005	2009
GDP	8,5	4,2	-7,1
Household final consumption	9,8	7,4	-6,5
Government's final consumption	-1,0	0,2	0,1
Fixed capital gross formation	+2,4	3,4	-8,1
Net Export	-4,4	-4,5	7,5
Changes in inventories	1,7	-2,3	-0,1

Source: Data of the National Institute of Statistics. Own calculations, Romania's Statistical Yearbook 2005.

The data in Table no.4.6 emphasize that in the crisis year 2009, the **net export, created in the "tradable" sector (Manufacturing) was the only one who contributed positively to GDP** growth, the fixed capital gross formation and the individual consumption having a negative impact.

The dramatic decrease in the number of employees in the manufacturing industry in Romania is a negative phenomenon which did not contribute at all to the development of the country but it rather increased its vulnerability and dependence, internally and externally. We need a radical change in the strategic management of sustainable growth of manufacturing industries, especially with when a **new reindustrialization of Romanian economy** is more often discussed. The increase in the weight of financial and business insurance services is only a "favourable" appearance that could not compensate for the long-term effects and the job losses in manufacturing industry.

These changes on the labour market, keeping their proportions and features, are found in developed countries as well and suggest the influence of several common factors including, in the top, the technological change and globalization that allow specialization on certain goods and products but on different stages of production process. The links of the chain with the lowest added value are transferred in less developed countries or in the developing countries, where labour force is cheaper and the better paid jobs remain in the developed countries. If in America manufacturing industry declined and wages were lower, in commercial services, where America has a comparative advantage, both value added and employment increased. The same happened to **non-tradable** services which, by definition, remain where consumption occurs. The demand for non-tradable goods in the future may not continue to grow at the same pace as so far, considering the effects of the economic and financial crisis. Health, commerce and government services decreased. Therefore, government will have to focus on technologies that could serve to

develop the "tradable" sector (of goods and services exported).

The economic structural evolution has its own strategic importance and may be affected in different effective ways, so that nowadays there appears as increasingly necessary **strategy of reindustrialization of transitional economies**, after the shock **deindustrialization** produced during 1990-2010. In this context, we can mention that Romania follows an unfavourable trend, as compared to the global trends, in terms of the drastic reduction of CDI staff and of the investment and expenditure in the sector considered, along with industry and agriculture as factors of **sustainable, smart and inclusive development** (UE Strategy 2020).

There still are many uncertainties about how to implement such a strategy which does not mean that we will not have to deal with both theoretical and pragmatic terms. Many specialists would question an industrial policy that promotes manufacturing industry as a first priority.

As long as a low demand keeps the interest rates and the dollar at a low level, the tradable sector is likely to grow without the need for action (impulse) from the state. America remains the world's largest manufacturing producer. Japan and America have doubled the manufacturing production output in the period 1980-2009, and, in absolute terms, the manufacturing production output did not decline in any of the G7 country in this period.

The manufacturing industry with low added value focused in China, where labour is cheap, but it is not clear whether this structure of comparative advantage will last long. However, China has not neglected the sustainable growth of manufacturing industry especially of branches with high added value, science-intensive, using in a first phase the massive promotion of technological transfer and assimilation of the mass of products and equipment, followed by a phase of improvement in products and services acquired and, more importantly, a phase of business creativity and innovation.

Jagdish Bhagwati, professor of Columbia University, believes that those who favour stimulation of the manufacturing industry in the rich world suffer from the so-called "fetish" of processors (manufacturing fetish). According to Bhagwati, the fascination for manufacturing industry is based on the erroneous belief that it is more dynamic in terms of technology than the services. In the services there take place sensitive dynamic of technological progress as well, such as: logistics companies, large wholesalers, mobile telecommunications, innovation in non-financial services, genetically modified seeds in agriculture. However it is worth mentioning that these services are driven, in the final analysis, by the manufacturing sector which they serve as producers of "tradable" goods. The wholesale and the retail have benefited from huge benefits in recent decades, as a result of ICT development, whose material base can be found in manufacturing industry.

Bhagwati also considers as wrong the second assumption of "fetishists", that manufacturing is more important for creating jobs than services. Changing the structure of production for manufacturing industries does not increase the number of jobs. The increasing demand for "non-tradable" services occurs just as strong as in the years before the crisis, Bhagwati says, although there are no solid arguments in this regard.

On the other hand, it is unclear whether the demand for "tradable" services will decrease or not. As emerging economies become more developed, they will want to benefit in larger quantities, from all sorts of services, including the most sophisticated, to which the U.S. and Britain have comparative advantages. Those inclining towards the development of manufacturing industry on the grounds that it would be better to stimulate exports, often ignore the fact that an increased volume of services becomes exportable (traded), and that rich countries tend to export more than import such services. America and England have a surplus of trade balance in such services. Rich countries face obstacles in the

capitalization of power (their economic supremacy in this field). However, the trade in services remains, from far, relatively restricted, not only in emerging economies. Mario Monti from Bocconi University in Milan found that only 20% of services in EU have a cross-border component and that the efforts to liberalize services can bring more benefits than the exhortations to stimulate manufacturing industries.

In this part of the communication I wanted to bring forward a major problem that the strategic management at the macroeconomic level currently faces, in terms of sustainable development policies, sectoral and sub-sectoral, as a result of the de-industrialization phenomenon at a national level in countries with economies in transition and of the defragmentation of processing industries under the impact of the globalization processes and the deepening of domestic and international specialization and cooperation in the production of goods and services that imply new requirements for the management of sustainable development in conditions of extensive business networks (business networking) whose hard core is represented by the multi and trans-national corporations.

The conceptual and strategic reconsidering of the promotion of sustainable and competitive economic structure in Romania is a prerequisite for addressing external debt sustainability that requires, complementarily, an optimal solution of other issues as well:

- the ratio between domestic and foreign debt on short, medium and long term;
- a correlation, in time, of the increased debt with the repayment capacity, in order to avoid insolvency;
- better negotiation of conditions for bilateral and multilateral lending;
- correlation of real economy with the nominal, as to ensure the primacy of the former and the latter's role as an important factor of influence, knowing that what remains finally is only the anthropic, socio-human capital, together with the natural one, beyond the ephemerality of the monetary financial processes;

- making the policy makers accountable for the identifying sources of external debt repayment, beyond their term of office.

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Real GDP growth and CPI inflation (%) in European countries

	Real GDP growth				Average CPI inflation			
	2009	2010	2011	2012	2009	2010	2011	2012
Europe ¹	-4.5	2.4	2.4	2.6	2.7	3.0	3.8	3.0
Countries with developed economy ¹	-4.0	1.7	1.7	1.9	0.7	1.9	2.5	1.8
Emerging economies	-5.9	4.2	4.3	4.3	8.5	6.3	7.3	6.2
European Union ¹	-4.1	1.8	1.8	2.1	0.9	2.0	2.7	1.9
Euro area	-4.1	1.7	1.6	1.8	0.3	1.6	2.3	1.7
Austria	-3.9	2.0	2.4	2.3	0.4	1.7	2.5	2.0
Belgium	-2.7	2.0	1.7	1.9	0.0	2.3	2.9	2.3
Cyprus	-1.7	1.0	1.7	2.2	0.2	2.6	3.9	2.8
Estonia	-13.9	3.1	3.3	3.7	-0.1	2.9	4.7	2.1
Finland	-8.2	3.1	3.1	2.5	1.6	1.7	3.0	2.1
France	-2.5	1.5	1.6	1.8	0.1	1.7	2.1	1.7
Germany	-4.7	3.5	2.5	2.1	0.2	1.2	2.2	1.5
Greece	-2.0	-4.5	-3.0	1.1	1.4	4.7	2.5	0.5
Ireland	-7.6	-1.0	0.5	1.9	-1.7	-1.6	0.5	0.5
Italy	-5.2	1.3	1.1	1.3	0.8	1.6	2.0	2.1
Luxemburg	-3.7	3.4	3.0	3.1	0.4	2.3	3.5	1.7
Malta	-3.4	3.6	2.5	2.2	1.8	2.0	3.0	2.6
Nederland	-3.9	1.7	1.5	1.5	1.0	0.9	2.3	2.2
Portugal	-2.5	1.4	-1.5	-0.5	-0.9	1.4	2.4	1.4
Slovakia	-4.8	4.0	3.8	4.2	0.9	0.7	3.4	2.7
Slovenia	-8.1	1.2	2.0	2.4	0.9	1.8	2.2	3.1
Spain	-3.7	-0.1	0.8	1.6	-0.2	2.0	2.6	1.5
Other EU countries with advanced economies								
Czech Republic	-4.1	2.3	1.7	2.9	1.0	1.5	2.0	2.0
Denmark	-5.2	2.1	2.0	2.0	1.3	2.3	2.0	2.0
Sweden	-5.3	5.5	3.8	3.5	2.0	1.9	2.0	2.0
England	-4.9	1.3	1.7	2.3	2.1	3.3	4.2	2.0
Emerging EU economies								
Bulgaria	-5.5	0.2	3.0	3.5	2.5	3.0	4.8	3.7
Hungary	-6.7	1.2	2.8	2.8	4.2	4.9	4.1	3.5
Latvia	-18.0	-0.3	3.3	4.0	3.3	-1.2	3.0	1.7
Lithuania	-14.7	1.3	4.6	3.8	4.4	1.2	3.1	2.9
Poland	1.7	3.8	3.8	3.6	3.5	2.6	4.1	2.9
Romania	-7.1	-1.3	1.5	4.4	5.6	6.1	6.1	3.4
Non-EU advanced economies								
Iceland	-6.9	-3.5	2.3	2.9	12.0	5.4	2.6	2.6
Israel	0.8	4.6	3.8	3.8	3.3	2.7	3.0	2.5
Norway	-1.4	0.4	2.9	2.5	2.2	2.4	1.8	2.2
Switzerland	-1.9	2.6	2.4	1.8	-0.5	0.7	0.9	1.0
Other emerging economies								

	Real GDP growth				Average CPI inflation			
	2009	2010	2011	2012	2009	2010	2011	2012
Albania	3.3	3.5	3.4	3.6	2.2	3.6	4.5	3.5
Belarus	0.2	7.6	6.8	4.8	13.0	7.7	12.9	9.7
Bosnia and Herzegovina	-3.1	0.8	2.2	4.0	-0.4	2.1	5.0	2.5
Croatia	-5.8	-1.4	1.3	1.8	2.4	1.0	3.5	2.4
Macedonia	-0.9	0.7	3.0	3.7	-0.8	1.5	5.2	2.0
Moldova	-6.0	6.9	4.5	4.8	0.0	7.4	7.5	6.3
Montenegro	-5.7	1.1	2.0	3.5	3.4	0.5	3.1	2.0
Russia	-7.8	4.0	4.8	4.5	11.7	6.9	9.3	8.0
Serbia	-3.1	1.8	3.0	5.0	8.1	6.2	9.9	4.1
Turkey	-4.7	8.2	4.6	4.5	6.3	8.6	5.7	6.0
Ukraine	-14.8	4.2	4.5	4.9	15.9	9.4	9.2	8.3
Memorandum								
World	-0.5	5.0	4.4	4.5	2.5	3.7	4.5	3.4
Advanced economy	-3.4	3.0	2.4	2.6	0.1	1.6	2.2	1.7
Emergent and developing	2.7	7.3	6.5	6.5	5.2	6.2	6.9	5.3
USA	-2.6	2.8	2.8	2.9	-0.3	1.6	2.2	1.6
Japan	-6.3	3.9	1.4	2.1	-1.4	-0.7	0.2	0.2
China	9.2	10.3	9.6	9.5	-0.7	3.3	5.0	2.5

Source: IMF, World Economic Outlook.

¹ Average weighted by GDP valued at purchasing power parity

Emerging Europe: GDP growth in domestic demand, exports and private consumption

	Real GDP growth				Real growth of domestic demand				Real growth of export				Real growth of private consumption			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Baltics²	-15.9	0.7	4.1	3.9	-26.2	1.6	5.0	4.1	-13.2	14.1	9.2	7.5	-20.1	-2.6	2.7	3.0
Latvia	-18.0	-0.3	3.3	4.0	-27.6	-0.9	3.0	4.3	-14.1	10.3	7.0	5.7	-24.1	-0.1	3.0	4.0
Lithuania	-14.7	1.3	4.6	3.8	-25.4	3.0	6.1	4.0	-12.7	16.3	10.5	8.5	-17.7	-4.1	2.5	2.4
Central Europe²	-0.1	3.3	3.6	3.4	-3.1	2.9	3.2	3.4	-7.4	11.0	7.5	6.7	0.2	2.0	3.2	3.3
Hungary	-6.7	1.2	2.8	2.8	-10.8	-1.6	2.3	2.5	-9.6	13.9	9.3	8.7	-6.8	-2.6	1.5	2.2
Poland	1.7	3.8	3.8	3.6	-1.0	4.0	3.4	3.7	-6.8	10.2	7.0	6.2	2.0	3.2	3.6	3.6
Southeastern Europe-EU²	-6.6	-0.9	1.9	4.1	-12.8	-1.9	1.0	4.0	-6.9	14.0	9.4	8.0	-9.5	-1.5	1.7	4.0
Bulgaria	-5.5	0.2	3.0	3.5	-12.7	-4.5	3.0	3.5	-11.2	16.2	9.8	7.5	-7.6	-1.2	3.6	4.0
Romania	-7.1	-1.3	1.5	4.4	-12.9	-1.0	0.3	4.2	-5.3	13.1	9.3	8.2	-10.2	-1.7	1.0	4.1
Southeastern Europe-non-EU²	-3.0	0.8	2.5	3.6	-7.2	-3.3	1.3	3.4	-12.8	14.0	9.3	6.8	-4.2	-1.0	1.1	3.4
Albania	3.3	3.5	3.4	3.6	3.1	-8.0	4.1	2.6	-1.7	29.0	1.2	7.6	6.5	-5.1	3.3	2.4
Bosnia and Herzegovina	-3.1	0.8	2.2	4.0	-6.4	-1.4	1.3	4.1	-6.2	9.7	6.0	4.8	-3.9	0.8	0.8	3.3
Croatia	-5.8	-1.4	1.3	1.8	-9.3	-5.1	0.7	2.0	-16.2	4.1	3.3	2.1	-8.5	-1.2	0.1	0.5
Kosovo	2.9	4.0	5.5	5.2												
FYR Macedonia	-0.9	0.7	3.0	3.7	-2.9	-1.1	2.4	3.8	-10.7	22.7	18.7	13.0	-3.9	1.1	2.4	3.9
Rep. Montenegro	-5.7	1.1	2.0	3.5	-16.9	-3.3	-1.2	1.2	-22.4	9.0	8.2	5.3	-13.4	6.8	-2.3	-0.1
Serbia	-3.1	1.8	3.0	5.0	-8.6	-1.2	0.9	4.8	-15.0	19.1	16.6	10.2	-2.4	-1.3	1.3	6.6
European CIS countries²	-8.2	4.2	4.9	4.6	-14.4	6.5	7.6	6.1	-7.3	10.0	3.4	4.2	-5.7	3.4	7.2	6.8
Belarus	0.2	7.6	6.8	4.8	-1.1	10.3	6.1	5.0	-9.0	5.1	13.3	4.7	0.0	8.6	6.9	6.9
Moldova	-6.0	6.9	4.5	4.8	-18.6	9.6	5.9	5.5	-12.1	12.8	7.1	9.2	-8.0	9.0	5.8	5.3
Russia	-7.8	4.0	4.8	4.5	-14.0	6.3	7.8	6.3	-4.7	10.2	2.4	3.8	-4.9	2.8	7.1	7.0
Ukraine	-14.8	4.2	4.5	4.9	-22.6	6.2	6.3	5.3	-25.1	10.4	5.9	6.7	-13.9	5.9	7.5	5.3
Turkey	-4.7	8.2	4.6	4.5	-7.2	12.2	5.3	5.1	-5.3	2.6	6.2	6.1	-2.2	7.3	6.1	5.7
Emerging Europe^{2,3}	-5.9	4.2	4.3	4.3	-10.9	5.8	5.6	5.2	-7.3	9.3	5.4	5.4	-4.5	3.3	5.6	5.6
New EU member states^{2,11}	-3.5	2.2	3.0	3.5	-7.0	1.4	2.4	3.4	-9.0	13.0	8.3	6.8	-3.1	0.6	2.4	3.3
<i>Memorandum</i>																

	Real GDP growth				Real growth of domestic demand				Real growth of export				Real growth of private consumption			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Czech Republic	-4.1	2.3	1.7	2.9	-3.7	1.1	1.0	2.2	-10.8	18.0	10.3	6.3	-0.2	0.4	0.9	2.3
Estonia	-13.9	3.1	3.3	3.7	-20.5	-3.8	3.5	3.7	-18.7	21.7	4.1	4.9	-18.8	-1.9	2.4	2.4
Slovakia	-4.8	4.0	3.8	4.2	-7.9	2.7	1.8	3.6	-15.9	16.4	8.5	6.6	0.3	-0.3	2.3	3.8
Slovenia	-8.1	1.2	2.0	2.4	-10.1	0.4	1.0	2.2	-17.7	7.8	6.8	5.7	-0.8	0.5	1.2	2.2
European Union ^{2,5}	-4.1	1.8	1.8	2.1	-4.2	1.3	1.0	1.6	-12.6	10.1	6.6	5.1	-1.7	0.8	1.2	1.6

¹ Real export of goods and services; ² Average weighted by GDP at PPP; ³ Includes: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro Rep., Poland, Romania, Russia, Serbia, Turkey and Ukraine; ⁴ Includes: Bulgaria, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia; ⁵ Includes: Austria, Belgium, Bulgaria, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Nederland, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and England.

Source: IMF World Economic Outlook.

Inflation (CPI), the current account and external debt, 2009-2012 (%)

	CPI Inflation (average)				CPI inflation at the end of the period				Current account balance / GDP				Total external debt / GDP			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Baltics¹	4.0	0.3	3.1	2.5	0.3	3.2	2.9	2.4	6.2	2.5	0.5	-1.2	118.2	117.4	109.6	103.0
Latvia	3.3	-1.2	3.0	1.7	-1.4	2.4	1.9	2.3	8.6	3.6	2.6	1.5	156.3	165.2	152.0	141.2
Lithuania	4.4	1.2	3.1	2.9	1.3	3.6	3.5	2.5	4.5	1.8	-0.9	-2.9	91.4	85.7	82.2	78.5
Central Europe¹	3.6	3.1	4.1	3.0	3.9	3.3	3.8	2.8	-1.8	-2.2	-2.8	-3.1	85.3	83.5	83.7	81.5
Hungary	4.2	4.9	4.1	3.5	5.6	4.2	3.9	3.2	-0.5	1.6	1.5	0.9	153.3	143.9	140.6	131.5
Poland	3.5	2.6	4.1	2.9	3.5	3.1	3.8	2.7	-2.2	-3.3	-3.9	-4.2	64.9	66.8	68.4	68.5
Southeastern Europe-EU¹	4.7	5.3	5.7	3.5	3.9	7.0	4.4	2.8	-5.5	-3.4	-4.2	-4.4	81.4	80.6	82.4	78.5
Bulgaria	2.5	3.0	4.8	3.7	1.6	4.4	5.3	2.4	-10.0	-0.8	-1.5	-2.0	113.6	102.3	94.7	88.2
Romania	5.6	6.1	6.1	3.4	4.8	8.0	4.0	3.0	-4.2	-4.2	-5.0	-5.2	71.8	74.2	78.7	75.6
Southeastern Europe— , non-EU¹	3.7	3.2	6.1	3.1	3.1	5.1	4.9	3.0	-7.8	-5.7	-6.9	-6.6	78.4	78.4	73.8	72.5
Albania	2.2	3.6	4.5	3.5	3.7	3.4	4.0	2.9	-14.0	-10.1	-11.2	-9.8	33.5	41.6	37.7	39.1
Bosnia and Herzegovina	-0.4	2.1	5.0	2.5	0.0	3.1	5.0	2.5	-6.9	-6.0	-6.0	-5.7	54.9	54.6	58.6	58.4
Croatia	2.4	1.0	3.5	2.4	1.9	1.9	3.5	2.4	-5.5	-1.9	-3.6	-3.6	101.9	99.3	93.4	91.4
Kosovo	-2.4	3.5	8.2	2.1	0.1	6.6	5.6	2.0	-16.8	-17.3	-23.1	-25.6				
FYR Macedonia	-0.8	1.5	5.2	2.0	-1.6	3.0	7.5	2.0	-6.4	-2.8	-4.2	-4.8	57.5	56.5	57.3	58.2
Rep.Montenegro	3.4	0.5	3.1	2.0	1.5	0.7	3.0	1.8	-30.3	-25.6	-24.5	-22.1	97.8	100.2	99.0	97.5
Rep.Serbia	8.1	6.2	9.9	4.1	6.6	10.3	6.0	4.0	-6.9	-7.1	-7.4	-6.6	78.7	81.6	74.0	72.8
European CIS countries¹	12.2	7.2	9.5	8.1	9.2	8.9	8.9	7.6	2.9	3.6	4.2	2.7	43.1	37.3	30.7	28.1
Belarus	13.0	7.7	12.9	9.7	10.1	9.9	13.0	9.0	-13.0	-15.5	-15.7	-15.2	44.9	51.5	57.9	63.4
Moldova	0.0	7.4	7.5	6.3	0.4	8.1	7.5	5.0	-8.5	-10.9	-11.1	-11.2	65.5	67.4	70.3	74.0
Russia	11.7	6.9	9.3	8.0	8.8	8.8	8.5	7.5	4.1	4.9	5.6	3.9	38.6	32.3	25.5	22.6
Ukraine	15.9	9.4	9.2	8.3	12.3	9.1	10.2	7.7	-1.5	-1.9	-3.6	-3.8	88.0	83.9	80.7	80.3
Turkey	6.3	8.6	5.7	6.0	6.5	6.4	7.0	5.4	-2.3	-6.5	-8.0	-8.2	43.7	40.7	43.7	46.2
Emerging Europe¹⁻²	8.5	6.3	7.3	6.2	7.0	7.1	7.1	5.8	-0.1	-0.5	-0.3	-1.1	57.3	52.0	47.7	45.4
New EU member states¹⁻³	3.2	2.9	3.9	2.9	2.9	3.7	3.6	2.7	-2.0	-2.2	-2.6	-2.8	75.7	75.1	73.9	71.2
<i>Memorandum</i>																
Czech Rep.	1.0	1.5	2.0	2.0	1.0	2.3	2.2	2.0	-1.1	-2.4	-1.8	-1.2	45.5	47.4	44.0	42.0
Estonia	-0.1	2.9	4.7	2.1	-1.7	5.4	3.5	2.0	4.5	3.6	3.3	3.1	125.8	117.6	100.5	95.0

	CPI Inflation (average)				CPI inflation at the end of the period				Current account balance / GDP				Total external debt / GDP			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
Slovakia	0.9	0.7	3.4	2.7	0.1	1.3	3.4	2.9	-3.6	-3.4	-2.8	-2.7	71.9	72.1	70.4	67.8
Slovenia	0.9	1.8	2.2	3.1	1.8	1.9	3.0	2.7	-1.5	-1.2	-2.0	-2.1	105.2	113.8	113.3	114.4
European Union^{1,1}	0.9	2.0	2.7	1.9	1.2	2.5	2.5	1.9	-0.2	-0.1	-0.2	-0.1				

¹ Real export of goods and services; ² Average weighted by GDP at PPP; ³ Includes: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Rep.Montenegro, Poland, Romania, Russia, Serbia, Turkey and Ukraine; ⁴ Includes: Bulgaria, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia; ⁵ Include: Austria, Belgium, Bulgaria, Czech Rep., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Nederland, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and England.

Source: IMF, World Economic Outlook.

Saving-investment balance by sectors in some European countries during 2000-2007
 (% of GDP, unless otherwise specified)

	Households			Non-financial corporations			Financial corporations			Government			Total		
	S(E)	I	Net	S(E)	I	Net	S(E)	I	Net	S(E)	I	Net	S(E)	I	Net
	Year 2007														
Countries with surplus	10.2	6.5	3.8	12.6	11.1	1.5	1.0	0.3	0.7	2.8	1.7	1.0	26.6	19.6	7.0
Nederland	6.9	7.5	-0.5	17.0	9.3	7.7	1.5	0.4	1.2	3.4	3.3	0.1	28.8	20.4	8.4
Germany	11.5	6.2	5.3	11.4	10.5	0.8	0.7	0.1	0.6	2.4	1.4	1.0	26.0	18.3	7.6
Finland	3.9	7.7	-3.7	14.9	12.5	2.5	0.7	0.3	0.4	7.6	2.5	5.1	27.1	22.9	4.2
Austria	10.2	5.3	5.0	12.0	16.0	-4.0	2.3	0.7	1.6	2.6	1.1	1.4	27.2	23.2	4.0
Belgium	10.0	6.7	3.3	13.6	13.7	0.0	1.3	0.8	0.6	1.7	1.6	0.1	26.7	22.8	3.9
Countries with deficit ¹	9.0	7.7	-1.0	6.8	12.8	-2.9	1.5	0.5	0.6	2.8	3.2	-0.4	20.0	24.2	-4.2
Italy	10.2	6.9	3.3	6.3	12.2	-5.9	1.3	0.4	0.9	2.3	2.3	0.0	20.1	21.9	-1.8
France	10.2	7.0	3.1	7.9	11.1	-3.2	0.8	0.8	0.0	1.1	3.3	-2.2	20.0	22.2	-2.2
Ireland	3.3	12.2	-8.8	9.3	9.8	-0.4	4.9	0.6	4.3	4.1	4.7	-0.5	21.7	27.2	-5.5
Spain	6.9	9.7	-2.8	5.2	17.2	-12.0	2.1	0.1	2.0	6.9	4.0	2.8	21.0	31.0	-10.0
Portugal	4.9	5.8	-0.9	5.6	13.6	-8.0	2.6	1.0	1.6	-0.5	2.4	-2.9	12.7	22.9	-10.2
Greece ²	-1.1	9.4	-10.5	10.7	7.2	3.5	2.0	0.3	1.7	-2.5	2.8	-5.3	9.0	19.7	-10.7
Hard peg	-6.3	4.8	-11.1	16.0	26.0	-10.0	1.3	0.1	1.1	6.0	5.4	0.6	16.9	36.3	-19.4
Lithuania	-3.2	3.9	-7.1	13.9	21.5	-7.6	1.5	0.1	1.3	3.6	5.3	-1.7	15.8	30.9	-15.1
Estonia	-0.9	8.5	-9.4	15.5	26.1	-10.6	-0.2	-0.1	-0.1	7.6	5.1	2.5	22.0	39.6	-17.7
Latvia	-3.0	5.0	-8.0	12.4	29.1	-16.7	3.0	0.0	3.0	5.7	6.3	-0.6	18.1	40.4	-22.3
Bulgaria	-14.9	3.5	-18.4	21.0	28.0	-7.0	0.7	0.4	0.3	7.6	4.9	2.7	14.3	36.8	-22.5
	Year 2000														
Countries with surplus	9.6	7.2	2.5	8.9	12.2	-3.3	1.5	0.7	0.8	2.4	2.0	0.4	22.4	22.0	0.4
Nederland	6.9	7.0	-0.1	13.8	10.4	3.4	3.1	1.4	1.7	4.5	3.1	1.4	28.4	22.0	6.4
Germany	10.5	7.5	2.9	6.9	12.0	-5.1	1.2	0.5	0.7	1.6	1.8	-0.2	20.2	21.8	-1.6
Finland	4.4	6.6	-2.3	14.7	11.6	3.1	0.1	0.2	-0.1	9.3	2.4	6.8	28.5	20.9	7.6
Austria	8.9	5.7	3.1	11.3	16.0	-4.7	2.1	1.0	1.1	1.3	1.5	-0.2	23.6	24.3	-0.7
Belgium	10.6	5.9	4.8	12.5	13.8	-1.3	1.0	0.9	0.1	2.6	2.0	0.6	26.7	22.5	4.2
Countries with deficit ¹	9.2	6.5	2.7	8.8	11.9	-3.1	1.2	0.6	0.6	2.0	2.9	-0.9	21.2	21.9	-0.7
Italy	9.9	6.5	3.4	8.6	11.3	-2.8	0.8	0.6	0.3	1.3	2.3	-1.0	20.6	20.7	-0.1
France	9.8	5.7	4.0	8.3	10.8	-2.5	1.4	0.8	0.5	2.1	3.1	-1.0	21.6	20.5	1.1

	Households			Non-financial corporations			Financial corporations			Government			Total		
	S(E)	I	Net	S(E)	I	Net	S(E)	I	Net	S(E)	I	Net	S(E)	I	Net
Ireland ³	4.9	7.4	-2.5	9.4	8.9	0.6	2.2	0.4	1.8	3.9	4.3	-0.3	20.5	20.9	-0.4
Spain	7.5	7.4	0.1	10.3	15.3	-5.0	1.5	0.4	1.1	3.0	3.2	-0.1	22.3	26.3	-4.0
Portugal	7.5	8.8	-1.2	8.0	15.4	-7.4	1.7	0.7	1.0	0.5	3.7	-3.1	17.8	28.5	-10.7
Greece	2.4	11.5	-9.1	8.3	7.8	0.6	0.7	0.4	0.3	-0.2	3.6	-3.8	11.3	23.3	-12.0
Hard peg	-1.1	2.2	-3.3	13.4	17.6	-4.2	1.8	0.7	1.1	3.1	2.6	0.5	17.2	23.0	-5.8
Lithuania	4.5	3.7	0.9	5.6	12.5	-6.9	1.3	0.4	1.0	1.5	2.4	-0.8	13.0	18.9	-5.9
Estonia	2.3	3.4	-1.0	16.0	21.2	-5.1	1.5	0.3	1.2	3.5	3.8	-0.3	23.4	28.7	-5.3
Latvia	1.5	1.4	0.2	14.4	19.9	-5.5	2.7	1.1	1.6	0.2	1.4	-1.1	18.9	23.7	-4.8
Bulgaria ⁴	-9.3	0.8	-10.1	18.8	19.2	-0.4	1.6	0.8	0.8	6.1	2.9	3.2	17.3	23.8	-6.5
Changes in 2007 compared to 2000 (percentage points of GDP)															
Countries with surplus	0.6	-0.7	1.3	3.7	-1.0	4.8	-0.5	-0.4	-0.1	0.4	-0.2	0.6	4.2	-2.4	6.6
Nederland	0.0	0.4	-0.4	3.2	-1.1	4.3	-1.6	-1.1	-0.5	-1.1	0.2	-1.3	0.4	-1.6	2.0
Germany	1.0	-1.3	2.3	4.5	-1.4	5.9	-0.5	-0.4	-0.2	0.8	-0.3	1.2	5.8	-3.5	9.3
Finland	-0.4	1.0	-1.5	0.2	0.9	-0.6	0.5	0.1	0.5	-1.7	0.0	-1.8	-1.4	2.0	-3.4
Austria	1.4	-0.4	1.8	0.7	0.0	0.7	0.2	-0.3	0.5	1.3	-0.4	1.6	3.6	-1.1	4.7
Belgium	-0.6	0.9	-1.5	1.2	-0.1	1.3	0.4	-0.1	0.5	-0.8	-0.3	-0.5	0.1	0.3	-0.3
Countries with deficit¹	-0.2	1.3	-3.7	-2.0	0.9	0.2	0.2	-0.1	0.1	0.8	0.3	0.5	-1.1	2.3	-3.5
Italy	0.3	0.4	-0.1	-2.2	0.9	-3.2	0.5	-0.2	0.6	1.0	0.0	1.0	-0.5	1.2	-1.7
France	0.4	1.3	-0.9	-0.4	0.3	-0.7	-0.6	-0.1	-0.5	-1.0	0.2	-1.2	-1.6	1.7	-3.3
Ireland	-1.6	4.7	-6.3	-0.1	0.9	-1.0	2.7	0.2	2.4	0.2	0.4	-0.2	1.2	6.3	-5.1
Spain	-0.6	2.3	-2.9	-5.1	1.8	-6.9	0.6	-0.3	0.9	3.8	0.9	3.0	-1.3	4.7	-6.0
Portugal	-2.6	-3.0	0.4	-2.4	-1.7	-0.6	0.9	0.3	0.6	-1.0	-1.2	0.2	-5.0	-5.6	0.6
Greece	-3.5	-2.1	-1.4	2.4	-0.5	2.9	1.2	-0.1	1.3	-2.4	-0.8	-1.5	-2.3	-3.6	1.3
Hard peg	-5.3	2.6	-7.9	2.5	8.4	-5.8	-0.5	-0.5	0.0	2.9	2.8	0.1	-0.3	13.3	-13.6
Lithuania	-7.7	0.2	-8.0	8.3	9.1	-0.8	0.1	-0.2	0.4	2.1	2.9	-0.8	2.8	12.0	-9.2
Estonia	-3.3	5.1	-8.4	-0.6	4.9	-5.5	-1.7	-0.4	-1.3	4.1	1.3	2.8	-1.4	11.0	-12.4
Latvia	-4.5	3.6	-8.1	-2.0	9.2	-11.3	0.2	-1.1	1.4	5.5	5.0	0.5	-0.8	16.7	-17.5
Bulgaria	-5.6	2.7	-8.3	2.2	8.8	-6.6	-1.0	-0.4	-0.5	1.5	2.0	-0.5	-3.0	13.0	-16.0

Source: Eurostat IMF, World Economic Outlook database and IMF staff calculations

¹Exclusively Greece, ² 2006, ³ 2002, ⁴ 2004

Note: E represents gross savings; I – gross investments; Net = E-I

Country groups averages are weighted with weights of nominal GDP in 2000 and 2007.

**Emerging Europe: evolution of public debt and the
general government balance**

(% of GDP)

	General government balance				Public debt			
	2009	2010	2011	2012	2009	2010	2011	2012
Baltics	-8.7	-7.7	-5.8	-4.2	30.8	39.1	43.1	43.8
Latvia	-7.8	-7.9	-5.3	-1.9	32.8	39.9	42.5	41.0
Lithuania	-9.2	-7.6	-6.0	-5.5	29.6	38.7	43.5	45.4
Central Europe	-6.6	-7.1	-3.7	-4.2	56.7	60.8	60.7	61.3
Hungary	-4.3	-4.1	3.9	-4.3	78.4	80.4	76.6	76.9
Poland	-7.2	-7.9	-5.7	-4.2	50.9	55.7	56.6	57.3
Southeastern Europe-EU	-5.6	-5.7	-3.9	-2.6	25.8	30.5	32.8	32.8
Bulgaria	-0.9	-3.6	-2.6	-1.5	15.6	18.0	19.7	20.0
Romania	-7.3	-6.5	-4.4	-3.0	29.6	35.2	37.8	37.7
Southeastern Europe-non-EU	-4.5	-4.4	-4.5	-3.9	37.5	41.8	42.6	43.6
Albania	-7.5	-3.7	-4.6	-4.6	60.2	59.7	59.9	60.4
Bosnia and Herzegovina	-5.6	-4.0	-3.0	-1.9	35.4	36.9	41.4	41.4
Croatia	-4.1	-5.3	-6.3	-6.1	35.4	40.0	44.1	47.6
Kosovo	-0.7	-2.9	-3.3	-4.1				
FYR Macedonia	-2.7	-2.5	-2.5	-2.2	23.9	24.8	26.8	27.4
Rep. Montenegro	-6.5	-3.8	-3.4	-2.5	40.7	44.1	43.1	42.2
Serbia	-4.3	-4.5	-4.1	-2.8	36.8	44.0	40.5	39.8
European CIS countries	-6.0	-3.7	-1.7	-1.8	14.3	14.1	13.3	13.8
Belarus	-0.7	-1.8	-1.9	-2.0	20.0	22.4	25.3	27.1
Moldova	-6.3	-2.5	-1.9	-0.7	31.6	29.8	30.4	32.4
Russia	-6.3	-3.6	-1.6	-1.7	11.0	9.9	8.5	8.8
Ukraine	-6.2	-5.8	-2.8	-2.5	35.3	40.5	42.6	43.5
Turkey	-6.2	-3.4	-2.2	-2.0	45.5	41.7	39.4	37.6
Emerging Europe	-6.1	-4.5	-2.5	-2.4	29.5	30.1	29.4	29.4
New EU member States	-6.4	-6.5	-3.9	-3.7	43.4	48.1	49.4	50.1
<i>Memorandum</i>								
Czech Republic	-5.8	-4.9	-3.7	-3.6	35.4	39.6	41.7	43.4
Estonia	-2.1	0.2	-1.0	-0.7	7.2	6.6	6.3	6.0
Slovakia	-7.9	-8.2	-5.2	-3.9	35.4	42.0	45.1	46.2
Slovenia	-5.8	-5.7	-2.0	-3.3	35.4	37.2	42.3	44.9
European Union	-6.8	-6.6	-4.8	-4.0	72.3	78.2	80.6	81.8

Source: IMF, World Economic Outlook database

**Emerging Europe of selected indicators of financial solidity
2007-2010¹**

%

	Income to assets					Share of NPL to total loans				
	2007	2008	2009	2010	Latest	2007	2008	2009	2010	Latest
Albania	1.6	0.9	0.4	0.7	Dec.	3.4	6.6	10.5	13.9	Dec.
Belarus	1.7	1.4	1.4	1.7	Dec.	1.9	1.7	4.2	3.5	Dec.
Bosnia and Herzegovina	0.9	0.4	0.1	-0.5	Sept.	3.0	3.1	5.9	9.2	Sept.
Bulgaria	2.4	2.1	1.1	0.9	Dec.	2.1	2.5	6.4	11.9	Dec.
Croatia	1.6	1.6	1.1	1.2	Dec.	4.8	4.9	7.8	11.2	Dec.
Hungary	1.2	0.8	0.7	0.1	Dec.	2.3	3.0	6.7	9.1	Dec.
Latvia	2.0	0.3	-3.5	-1.6	Dec.	0.8	3.6	16.4	19.0	Dec.
Lithuania	1.7	1.0	-4.2	-0.3	Dec.	1.0	4.6	19.3	19.7	Dec.
FYR Macedonia	1.8	1.4	0.6	0.8	Dec.	7.5	6.7	8.9	9.0	Dec.
Moldova	3.9	3.5	-0.5	0.5	Dec.	3.7	5.2	16.4	13.3	Dec.
Montenegro	0.7	-0.6	-0.7	-2.7	Dec.	3.2	7.2	13.5	21.0	Dec.
Poland	1.9	1.5	0.8	1.1	Dec.	5.2	4.5	8.0	8.8	Dec.
Romania	1.0	1.6	0.2	-0.1	Dec.	2.6	2.8	7.9	11.9	Dec.
Russia	3.0	1.8	0.7	1.9	Dec.	2.5	3.8	9.5	8.2	Dec.
Serbia	1.7	2.1	1.3	1.2	Sept.		11.3	15.5	17.8	Sept.
Turkey	2.6	1.8	2.4	2.2	Dec.	3.6	3.8	5.6	3.8	Dec.
Ukraine	1.5	1.0	-4.4	-1.5	Dec.	3.0	3.9	13.7	15.3	Dec.

¹ it refers to Global Financial Stability Report (April 2011)

Source: IMF, Global Financial Stability Report (April 2011)

*The main macroeconomic indicators in developing countries
during 2009-2012*

%

	Current account balance to GDP				General government balance to GDP			
	2009	2010	2011	2012	2009	2010	2011	2012
Advanced European economies¹	0.5	0.8	0.9	0.9	-6.3	-6.1	-4.5	-3.6
Euro area	-0.6	-0.6	0.0	0.0	-6.3	-6.1	-4.4	-3.6
Austria	2.9	3.2	3.1	3.1	-3.5	-4.1	-3.1	-2.9
Belgium	0.8	1.2	1.0	1.2	-6.0	-4.6	-3.9	-4.0
Cyprus	-7.5	-7.0	-8.9	-8.7	-6.0	-5.4	-4.5	-3.7
Estonia	4.5	3.6	3.3	3.1	-2.1	0.2	-1.0	-0.7
Finland	2.3	3.1	2.8	2.6	-2.9	-2.8	-1.2	-1.1
France	-1.9	-2.1	-2.8	-2.7	-7.6	-7.7	-6.0	-5.0
Germany	5.0	5.3	5.1	4.6	-3.0	-3.3	-2.3	-1.5
Greece	-11.0	-10.4	-8.2	-7.1	-15.4	-9.6	-7.4	-6.2
Ireland	-3.0	-0.7	0.2	0.6	-14.4	-32.2	-10.8	-8.9
Italy	-2.1	-3.5	-3.4	-3.0	-5.3	-4.6	-4.3	-3.5
Luxemburg	6.7	7.7	8.5	8.7	-0.7	-1.7	-1.1	-0.8
Malta	-6.9	-0.6	-1.1	-2.3	-3.7	-3.8	-2.9	-2.9
Nederland	4.6	7.1	7.9	8.2	-5.4	-5.2	-3.8	-2.7
Portugal	-10.9	-9.9	-8.7	-8.5	-9.3	-7.3	-5.6	-5.5
Slovakia	-3.6	-3.4	-2.8	-2.7	-7.9	-8.2	-5.2	-3.9
Slovenia	-1.5	-1.2	-2.0	-2.1	-5.5	-5.2	-4.8	-4.3
Spain	-5.5	-4.5	-4.8	-4.5	-11.1	-9.2	-6.2	-5.6
Other EU advanced economies								
Czech Rep.	-1.1	-2.4	-1.8	-1.2	-5.8	-4.9	-3.7	-3.6
Denmark	3.8	5.0	4.8	4.8	-2.8	-4.9	-3.6	-2.6
Sweden	7.2	6.5	6.1	5.8	-0.8	-0.2	0.1	0.4
England	-1.7	-2.5	-2.4	-1.9	-10.3	-10.4	-8.6	-6.9
Non-EU advanced economies								
Iceland	-10.4	-8.0	1.1	2.1	-9.0	-6.8	-4.6	-1.3
Israel	3.6	3.1	3.3	3.1	-5.6	-4.1	-3.2	-2.2
Norway	13.1	12.9	16.3	16.0	10.4	10.9	13.0	12.7
Switzerland	11.5	14.2	13.2	12.8	0.8	0.2	0.3	0.6
European Union²	-0.2	-0.1	-0.2	-0.1	-6.8	-6.6	-4.8	-4.0

Source: IMF, World Economic Outlook database.

¹Only net loans

²Weighted average. General government budget weighted by PPP of GDP, current account balance in USD-weighted GDP

Plenary session

EXPERIENCES AND TENDENCIES OF DECENTRALIZATION AT REGIONAL LEVEL IN THE EUROPEAN UNION

Dodescu Anca

University of Oradea, Faculty of Economic Sciences, adodescu@uoradea.ro

Abstract: Romania's integration into the European Union requires, in addition to the complex process of policy transfer, learning new ways to make policies characteristic to a culture of a multi-level governance and of partnerships. From the different levels of governance of the European model, the regional level ("regional governance") reflects most accurately, in our opinion, the complexity of reconfiguring the state's role in economy, at the beginning of this new millennium, in the European Union, and presents the greatest practical importance for Romania, as a new Member State in the European Union, as at the regional level structures are more flexible, and best practices more quickly assimilated. The selection of the best economic policies of regional growth and development, the choice of objectives from a number of competing options, the calibration of powers, roles, competences and responsibilities, in time and space, and the promotion of solutions of the win-win type require resorting to and combination of appropriate and effective tools. Illustrative of the new context, the policy of regional growth and development must incorporate, in Romania as well, more knowledge, more creativity, new combinations of skills and new areas of expertise. This paper presents the preliminary results of the research related to a post-doctoral research project: "Economic policies for regional growth and development. Challenges for Romania in the context of economic-financial crisis and integration into the European model", developed within the project "Economic scientific research, support of the welfare and human development in the European context", financed during 2010-2013 from the European Social Fund (ESF) and implemented by the National Institute of Economic Research "Costin C. Kirițescu" of the Romanian Academy, from December 1, 2010, to November 30, 2012, coordinator: prof. Valeriu Ioan Franc, PhD. The question we intend to answer in the present stage of our research, based on the comparative analysis of the decentralization systems of several Member States of the European Union, as well as on the analysis of regional disparities existing at the European Union level and of the effects of economic integration, is - to what extent should the competences of the regional policy be concentrated in the hands of the regional authorities or of the European Union rather than to be left individually to the Member States so as they may develop their own regional policy? What we pursue in this paper, based on the analysis of experiences of decentralization of economic policy competences at the level of the European Union, is the identification of the regional implications of intermingling tendencies of decentralization, centralization, respectively supranationalization and, implicitly, the analysis of the manner of reconfiguration of the state's role in economy at the regional level, in the context of integration into the European model. The research into the manner of reconfiguration of the state's role in economy at a regional level requires a review of the allocative, distributive and regulatory role of the state, from a the regional perspective, the analysis on the one hand, of the decentralization of economic policy competences from the national to the regional level (e.g. national level: provision of pure public goods, such as national defence and centralization of fiscal policy competences in order to achieve macroeconomic stability and income redistribution; regional level: provision of mixed public goods, such as waste collection and community police), on the other hand, centralization / supranationalization of regional competences at the level of the European Union.

Keywords: *the role of the state in economy, decentralization, European governance, regionalization, regional governance.*

JEL Classification: F15, H4, H5, H7, R5

The concept of decentralization

In the broad sense of the term, decentralization means the transfer of authority or responsibility, duties or competences from the level of central public administration or central government to a lower level or from the public sector to the private sector or to non-governmental organizations. As defined by the World Bank, decentralization means “the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/or the private sector” (The World Bank Group, 2011). As the transfer of competences always involves the transfer of financial and human resources as well, decentralization raises not only problems of a political, administrative nature but also of economic, fiscal etc. Depending on the predominance of one or other of these aspects, the literature marks the following forms of decentralization: administrative (whose sub-forms in ascending order of the degree of decentralization are: deconcentration, delegation, devolution), economic, fiscal and political, noting that these forms are obviously interrelated. If the transfer of competences does not exceed the public sector, according to the lower level to which the duties or powers are transferred, one can speak of different levels of decentralization - territorial, regional, local level etc. If the transfer of powers is from public to private sector or to NGOs, we talk about privatization and denationalization.

The reasons why decentralization is brought into public debate and implemented are various. Widely debated in the literature, the reasons for decentralization can be classified, in our opinion, in three categories. The first category is related to *malfunctions of* the public administration or of the central government which leads to lack of response or low sensitivity to local needs: poor allocation of resources, public services absent

or defective at a local level, inequities of redistribution at the territorial level, blockages in the central decision making; poor planning and control of the economic and social activities, excessive bureaucracy, low efficiency, flexibility and innovativeness of public policies; low quality of public services etc. Another category of reasons for decentralization are *crises*: political crises (ethnic or religious conflicts, difficult post-conflict situations, states of war etc.), or economic crises, implicitly fiscal, budgetary crises etc. Finally, reasons for decentralization are also represented by *transitions* from authoritarian political systems to democratic systems, from the system of commanded economy to the market economy etc., even the process of a state's integration into the European Union (EU) is a form of transition.

Whatever, though, the reasons of decentralization, it is widely admitted that politics is the driving force behind it (Eaton et al., 2010). The typical political *objectives* pursued in the process of decentralization are to increase the capacity of political response and to broaden participation in political, economic and social activities at the territorial, regional or local level. Whatever their form, size etc., decentralization requires a change in the institutional rules of distribution of resources and responsibilities between different levels of government, implicitly changes in power and authority and, as highlighted by Kent Eaton, Kai Kaiser and Paul Smoke – as always when power and authority are at stake – decentralization creates controversy and heated debate, regarding the justification of the need of a decentralization process, the objectives pursued, the reform involved, the possible disadvantages etc. (Eaton et al., 2010).

The debate about decentralization is not new. In the EU, subject to our analysis, in the last two decades of the last century, decentralization was often put forward, on the

one hand, as a result of the crisis of the *Welfare State*, leading to various experiences of reform through decentralization, the transfer of competences involved being, in this case, of the type *central-local* or *nationalization-privatization*, on the other hand, as a consequence of the *fragmentation of the power of the nation-state* and reconfiguration on various levels of the state's role in the economy in the context of *the process of integration into EU* (Dodescu, 2011), further implying a transfer of powers of the *central-regional* and *central-supranational* type.

At present, under the economic-financial crisis, the reverse phenomenon of *centralization* gains ground, confirming the validity, on a long term, of the theories on the *cyclicity of the degree of the state's involvement in the economy* (Dobrescu, 1992), on the *"pendular movement"* State-Market or nationalization-denationalization (Dogan and Pelasy, 1992) or on the *"political pendulum"* that moves between the *national-transnational-global-European* arenas, depending on the relative attraction force of these magnetic fields (Wallace and Wallace, 2000).

In our opinion, as the days of the controversy State *versus* Market, in the sense of the *"mirror approach"*, have passed, so has the time of the polemic Centralization *versus* Decentralization. Located in the context of globalization and instability, the debate on decentralization should take into consideration the change of governance levels and "locations" (Wallace and Wallace, 2000), the increase of the role of the sub-national actors (Sharma, 2008, 2011). It is more likely the "time" of networks, partnerships, multitude of actors and interests. This trend is present both globally and at the EU level. As the World Bank showed in its reports, an *appropriate balance of centralization and decentralization* is essential for effective and efficient functioning of government. This

translates into balance in decentralization of functions and responsibilities, on the one hand, and centralization of the roles of coordination and supervision, on the other. The combination of functions resulting – decentralized responsibilities with centralized roles of coordination and monitoring – should allow strengthening of the institutional capacity at a local level and effective management of decentralized functions in partnership between local actors - local governments, local private enterprises, local NGOs etc. and central actors involved in planning, coordination etc. (The World Bank Group, 2011). Moreover, in the EU context – of an emphasis on the role of networks in developing and implementing policies, of an assertion of the *"multi-level policy networks"* (Börzel, 1997), unlike the traditional analysis of decentralization, focusing in particular on the political, administrative and fiscal dimensions, or on the provision of services, emphasis is on the *interdependences* between the levels concerned with decentralization, in particular, respectively on the *interdependences* between actors (partners, the parties interested and the multipliers) involved (European Commission, 2007).

We next undertake is to analyse the reconfiguration of state's role in economy *at a regional level*, in the economic literature devoted to decentralization and in the context of the European model, in order to identify the regional implications of the interpenetration of the tendencies of *decentralization, centralization, respectively supranationalization*. Consideration on how to reconfigure the state's role in economy at a regional level requires review of the *state's allocative, distributive and regulatory roles* (Dodescu, 2000) *from the regional perspective*, the analysis, on the one hand, of the decentralization from the national to the regional level (e.g. national level: provision of pure public goods, such as national defence and fiscal policy and centralization of fiscal policy competences in order to achieve

macroeconomic stability and income redistribution; regional level: the provision of mixed public goods as for example, sewage collection and community police), on the other hand, centralization in the sense of supranationalization, regional competences at the EU level.

The economic approach of decentralization. Examination of the way of reconfiguring the state's allocative, distributive and the regulatory role in economy at regional level

The economic literature dedicated to decentralization studies the impact of different types of decentralization on *efficiency, equity and/or economic equilibrium* in order to define the optimal level of government decentralization based on comparing the advantages and disadvantages of different solutions for decentralization. The economic objectives pursued in the process of decentralization of production, distribution, financing etc. of goods or services at regional or local level can coincide with political objectives typical for decentralization: increased political responsiveness and participation at the territorial, regional or local level. As remarked by Kent Eaton, Kai Kaiser and Paul Smoke –“fortunately, the decentralization may be one of those situations when politics and economy can serve the same purpose” (Eaton et al., 2010). This statement should not, however, lead to too high a dose of optimism.

In terms of classical economic theory, the market is the ultimate form of decentralization. At the other extreme, one might consider that the state is automatically responsible for producing and distributing public goods or services. In practice, however, the market can offer often more efficient solutions than the state in the production or distribution of public goods. Also, local or regional solutions may be more effective than the central ones. On the other

hand, still in practice, if not well chosen, local solutions can cause loss of economies of scale for public services, failure in the production, provision of public services due to low administrative or technical capacity at local level. Clearly, we are talking here of *the state's allocative role* and of *the objective of efficient resources allocation*. At the same time, by decentralization the equitable distribution may be affected by providing social services that prove inadequate or do not reach all those “in need”. The cause may be the transfer of responsibilities without adequate financial resources. In this case, we talk about *the state's distributive role* and about *the objective of social equity*. Finally, *the state's regulatory role* subordinated to the *objective of economic equilibrium* can be affected when, for example, the coordination of economic policies moves from the hands of central government to the hands of regional government and this fact deteriorates the credit conditions and the possibilities to cover budget deficits at regional level or to the hands of local government and this transfer gives way to corruption at local level.

In terms of theory, there are some established *principles* underlying decentralization, a fugitive foray into their world being based on *Stigler's principles* (1957) that the decision-making should be placed at the lowest level of government in accordance with the objective of the efficient allocation of resources, the degree of decentralization being determined by the extent of the economies of scale and the effects of the type “*spill-over*” (benefits-costs); on *Olson's principle*, characteristic to the Public Choice School, whereby small groups of powerful interests are more efficient in absorbing public funds (Olson, 1969), on Oates's *theorem of decentralization* according to which every public service should be provided at that level of government that has control over the minimum geographic area able to internalize the corresponding costs and benefits (Oates, 1972), on the *principle of*

subsidiarity as set by the Maastricht Treaty (1992), whose purpose is to ensure that decisions in the EU are taken at a level as close to the citizens as possible. The theoretical perspectives according to which the decentralization issue is addressed are: *the traditional fiscal federalism* and *The New Public Management* - which focus their attention on the so-called “market failures” and on the ability to deliver public goods efficiently and equitably, the *Public Choice School* and the *Economic Institutionalism* - which focus on “government failures”, respectively the approach of the “*network governance*” type (Shah, 2006).

Defining *government decentralization*, considered economically, as a process of transfer and distribution of state duties in the field of public expenditure and revenue, from national to local or regional level, we try to point out the specific aspects of decentralization, at a regional level, in terms of the three *roles of the State: allocative, distributive and regulatory*.

a). Regional decentralization and optimal allocation of resources

In what the *the state's allocative role* is concerned, the analysis of the regional decentralization focuses mainly on *collective goods (public) goods*. According to the current acceptance regarding a democratic state, the number of collective goods produced centrally needs to decrease and to be restricted mainly to pure collective goods: army, security, foreign policy, justice etc. Not all *collective goods*, however, must be decentralized in the same way or at the same level. The state's role (of the central government) and the limits of decentralization in ensuring the provision of collective goods depend, first, on the nature of these goods and services, on the economies of scale affecting the technical efficiency and on the extent of the spillover effects, beyond jurisdictional boundaries, and on the structure

of competition in producing or delivering a particular public good or service. Therefore, choosing a solution of decentralization or a combination of solutions such as decentralized - managed competition - privatization etc. starts from the assessment of the lowest level of governmental organization, at which the public good or service can be produced and delivered effectively, or of the most appropriate forms of privatization (The World Bank Group, 2011).

The possibilities of decentralization of collective goods supply depends primarily on *their effect of overflow* (spatial opening of their externalities), respectively on the *non-rivalry* of their consumption (the possibility of their being used by a large number of people without an additional production cost; a person's consumption doesn't reduce by anything the amount available for all others, and is therefore non-rival to the consumption of others), respectively *non-exclusion* of their consumption (implies that the supplier of the collective good is unable to exclude someone from the consumption of these goods reserving that right to those who will pay a price, so, once produced, the collective good is available to all, free of charge). While some collective goods are only beneficial in the vicinity of the geographical area of their place of production (local police, street lighting, coastal lighthouse for navigation, traffic lights etc.), others have a wider spatial opening of their externalities - regional (road or rail transport, postal service, telecommunications, higher education etc.) or national (national defence, justice etc.). The first category - *local collective goods* - is consumed exclusively at the level of a local community. The indivisible nature of these goods and their optional use create redistributive externalities (for example, those who never go out at night bear the cost of lighting public without having a benefit in exchange), but these do not go beyond local boundaries, existing the possibility to

"internalize" them at a local level, the production in an optimal quantity at the local community level being possible without the externalities affecting neighbouring communities. In contrast, there are *national collective goods*, whose benefits are shared equally among all inhabitants of a country. The most illustrative example is the national defence, for which the risks and externalities of a possible decentralization are obvious for communities not large enough to internalize externalities. Between the two extremes we can fit the *regional collective goods* whose externalities extend beyond local boundaries, but which are consumed unevenly. Decentralization of their offer is only possible if the region is large enough to internalize the effects of an overflow, with the risk of insufficient supply, while centralization of their offer involves a uniformity that neglects the regional differences between the tastes and needs of the population, causing allocational and redistributive externalities. (Atkinson and Stiglitz, 1980; Brown and Jackson, 1990; Weber, 1991; Black et al., 2009).

b). Regional decentralization and equitable distribution

From the perspective of the *state's distributive role*, regional decentralization should be analyzed according to its potential impact on the *choice of domicile (emigration / immigration)* and on the *firms' location*. If, for example, a regional government decides to operate a redistribution effort much higher than that of the neighbouring community, applying a very progressive taxation, the community at stake will face a phenomenon of emigration of people receiving an income higher than average to communities with lighter taxation coupled with an opposite phenomenon, the immigration of the poor. Similarly, there may be a phenomenon of delocalisation of firms. For the community concerned this policy will therefore have a *boomerang effect*, because it will increase its

costs and diminish its revenue at the same time. Consequently, the national competence on the redistribution plan depends on the level of the following parameters: the amplitude of the redistributive correction; the disparity of the redistribution efforts undertaken by neighbouring communities, the spatial mobility of economic agents. The reduced mobility of economic agents or the strong attachment of individuals or firms to a region can counterbalance this boomerang effect. Therefore, decentralization of redistributive policy determines, with the price of a greater vertical equity, a horizontal inequity, the decentralization chances being small and dependent on the spatial mobility of the economic agents, on the size and homogeneity of the regional community, in order to practice, within certain limits, an active policy of redistribution (Atkinson and Stiglitz, 1980; Brown and Jackson, 1990; Weber, 1991; Black et al., 2009).

c). Regional decentralization and economic equilibrium

From the perspective of the *state's regulatory role*, the regional decentralization analysis must start from the indisputable fact that *the economic equilibrium* shows the characteristics of a *national collective good*, due to the spatial openness of its externalities. Even though their intensity varies from one region to another, the fluctuations in economic activity and the economic imbalances concern the national economy as a whole, therefore, the decentralization of the stabilization policy increases the risk that a region shall benefit from the stabilization effort of others without doing anything in exchange. On the other hand, the impact of regional stabilization policy is the weaker for the region concerned, the more open it is, the multiplier effect being only partial, because a part of the induced demand addresses a production made outside the region, respectively, the higher national capital mobility is, which deteriorates the conditions

of loan at a regional level and the possibilities to cover budget deficits (Atkinson and Stiglitz, 1980; Brown and Jackson, 1990; Weber, 1991; Black et al., 2009).

In conclusion, the analysis of decentralization at a regional level in terms of the three roles of the state, according to the theory of fiscal federalism, leads to a rather simple allocation scheme - the distributive and regulatory role are preferable at a central level, the allocative role being shareable or possible to decentralize in accordance with the *spatial openness of the externalities of collective goods*, respectively with the characteristics of *non-rivalry* and *non-exclusion* of their consumption.

Decentralization at the regional level in the EU. Trends

The decentralization of the responsibilities of governments in the EU must be considered in the context of the *fiscal federalism* and of the *subsidiarity principle*, according to the provision of the Maastricht Treaty. The theory of traditional fiscal federalism involves an administrative organization structured on three levels: *federal, state, local* and, implicitly, a division of fiscal responsibilities between the three levels. The specificity of the EU - as an entity that tends to become a federal state is linked to adding *the regional level* to the three levels of the theory of traditional fiscal federalism. Thus, at present, in the EU there are the following levels of government: *union, national states, regions, local authorities* (usually *counties* and *municipalities*). The allocation of powers at the appropriate level in accordance with the principle of subsidiarity stipulated by the Treaty of Maastricht answers to criticisms about the many overlaps between the upper and lower levels and to the heterogeneity of the administrative arrangements from a Member State to another, hence a tendency of *supranationalization* of competences of the national states (governments) manifesting

simultaneously at the EU level, along with the *decentralization* of some of their other competences to lower levels (regional and local). The principle of subsidiarity is intended to ensure that decision-making in the European Union is as close to the citizen as possible and to validate the need for action at community level considering the possibilities existing at national, regional or local level. According to The Treaty of Maastricht (Article 3b) "The Community shall act within the powers conferred and objectives assigned to it by this Treaty. In areas not within its exclusive competence, the Community shall take no action, in accordance with the principle of subsidiarity only if and insofar as the objectives of the proposed action cannot be achieved satisfactorily by the Member States, but can be better achieved at community level due to the extent or the effects of the proposed action." Relative to the state's roles in the context of *fiscal federalism* and *subsidiarity principle*, according to the provision of the Maastricht Treaty, the *supranational (European)* level is in charge with coordinating the stabilization policy, its management being a competence of the Member States, and with coordinating the territorial redistribution so as to ensure that all regions of the EU offer equal opportunities and uniform provisions of certain basic services, the Member States and the local communities maintaining their responsibilities for managing social policy and income redistribution to suit the preferences of each community (Oates, 2001; Majocchi, 2008). Therefore, the *regulatory role* is centralized and shared between the national level (management) and supranational (coordination), the *distributive role* is mostly centralized and shared between the national level (management) and supranational (coordination) and decentralized at a regional and local level, depending on the possibilities to meet local community preferences. Regarding *the allocative role*, as already noted, this is the

one that best meets the requirements of decentralization, depending on the characteristics of the *collective goods*, at a supranational level, here concentrating all efforts to strengthen the internal, single market.

Practically, the European Union's vision on the policy implementation is a *decentralized one, of the "network" type*, of a *non-hierarchical nature*, and involving *sub-national, national and supranational actors*. Following the debates within the European Union, on "*European governance*", starting from the *White Paper on European Governance*, adopted in July 2001, which defines clearly the five levels of governance: *global, European, national, regional and local* (European Commission, 2001) and describes the geographical decentralization of the EU policy and the sharing of powers and responsibilities of the type EU - member states - regions (European Commission, 2002), continuing with the debate on the *Future of Europe, the European Constitution and the Lisbon Treaty* and, more recently, the *2020 Strategy*, one can clearly notice the *increase* in the capacity of supranational regulation along with the *decentralization of powers of economic policy at a regional level, the implementation of the principle of subsidiarity and the emphasis of the role of networks in developing and implementing European policies* (European Commission, 2001, 2003a, 2005, 2007, 2010).

However, beyond the complexity of the process of transformation of the "*European governance*" into a "*network type governance*" (Dodescu, 2011), *in terms of a future federal state*, the tendency of *supranationalization* merely means an increase in the EU powers, it being added with further performance of the three roles of the national state described by the public economy: *allocative role* (currently seen in terms of strengthening the internal market and in view of the federal state, including

defence, research and development and European transport network etc.), *distributive role* (social protection and struggle against poverty), the *regulatory role* (the coordination of macroeconomic policy aiming at stability at the Union level). With a view to the European federal state, the roles of national governments are simplified, comprising the legal framework, ensuring public order, national infrastructure, public administration, regional distribution, public loans etc., while education, health, local transportation and other services of local interest will be responsibilities of local governments.

Decentralization at a regional level in the EU. Experiences

In the EU states, *the regional level* covers different political and administrative realities, being the result of a process of *decentralization* that combines the specificity of organization of state power in relation to the territory and the historical evolution of that state, to the requirement imposed by the EU of the existence of a sub-national administrative level but higher than the local one. For the EU, the need of a regional level is linked, primarily, to the implementation of financial assistance given by the regional policy, secondly, to the prospect transformation of the EU into a federal state and the high degree of autonomy granted to this level within federalism.

From the perspective of historical developments of the European states, of how nation-states were formed, federalism, however, is rather an exception than a rule, Switzerland, Germany (established in the 19th century), Austria and Belgium (established in the 20th century, in 1920, respectively in 1993) being the only *federal states* in Europe. Most European countries were founded as and are up to now *unitary states*. Obviously, in the EU, the regional level enjoys the greatest autonomy and knows the fastest

growth within the *federal states* (Germany, Austria, Belgium) or *regional* (Spain, Italy) and, in some parts of the territory, in Great Britain and Portugal) - intermediate structures between the federal and unitary state. For the opposite, the regional level has a reduced autonomy, existing only for administrative reasons or as a response to the need of implementing the EU regional policy within the *unitary states* (France, Netherlands, Greece, Ireland etc.).

The administrative-territorial structure of the EU Member States is extremely heterogeneous and comprises generally a *local level* (towns, villages) and *two main regional levels* structured, organized and named differently from country to country, for example, "Länder" and "Kreise" in Germany, "Regions" and "Departaments" in France, "Standard regions" and "Counties" in the UK, "Regioni" and "Provincia" in Italy etc. The launch of the regional policy of the EC in 1975 met the impossibility of comparative assessment of the economic situation in different regions as a basis for Community intervention to correct regional imbalances. Therefore, to ensure comparable statistics at European level, the EU has developed and regulated The Nomenclature of Territorial Units for Statistics (NUTS) (European Commission, 2003), a standard of geographical coding regarding subdivisions of the States defined for statistical purposes, instrumental in the mechanism of allocation of structural funds. NUTS establishes in each Member State at least three hierarchical levels: NUTS 1 ("Gewesten / Regions" in Belgium, "Länder" in Germany, "Continente", "Região dos Açores", "Região da Madeira" in Portugal, "Scotland, Wales, Northern Ireland", "Government Office Regions of England" in the UK), NUTS 2 ("Provincias / Provinces" in Belgium, "Regierungsbezirke" in Germany, "Periferias" in Greece, "Comundidades y ciudades autónomas" in Spain, "Régions" in France, "Regions" in Ireland, "Regioni" in

Italy, "Provincias" in the Netherlands, "Länder" in Austria), NUTS 3 ("Arrondissements" in Belgium, "Amtskommuner" in Denmark; "Kreise / kreisfreie Städte" in Germany, "Nomoi" in Greece, "Provincias" in Spain, "Départements" in France, "Regional authority regions" in Ireland, "Provincia" in Italy, "Län" in Sweden, "Maakunnat / landskapen" in Finland). The heterogeneity continues at the level lower than NUTS 3 as well, of the 'small administrative units': "Gemeenten / Communes" in Belgium, "Kommuner" in Denmark, "Gemeinden" in Germany, "Demoi / Koinotites" in Greece, "Municipios" in Spain, "Communes" in France, "Counties / County boroughs" in Ireland, "Comuni" in Italy, "Communes" in Luxembourg, "Gemeenten" in the Netherlands, "Gemeinden" in Austria, "Freguesias" in Portugal, "Kunnat / Kommuner" in Finland, "Kommuner" in Sweden and "Wards" in the UK etc. (European Commission, 2003b, 2008, 2011).

Therefore, for the European Union, the need for choosing a standard unit, as the basic unit for its regional policy is more than obvious. It was elected the *development region - standard unit* with an average size of 13,000 square kilometres and a population of approximately 2.5 million inhabitants, i.e. the intermediate level – NUTS 2. According to the EC, the development region *should not necessarily have an administrative character*, but it was compulsorily created in all EU Member States in order to allow comparability, harmonization of regional statistics of member countries, performance of analyses at a regional level within the EU and elaboration of Community regional strategies, policies and programs. The competition to attract structural funds triggered in time, as, in fact, the EC foresaw initially, a tendency to amplify competition not so much between Member States, but between regions of the same state or of different states, led to the occurrence of new

regional actors such as associations of regions, independent from the national states, and of the phenomenon of regional lobby. At Community level, the emergence in 1985 of the Assembly of European Regions, and in 1992, by the Treaty of Maastricht, of the Committee of the Regions, are clear elements in promoting and strengthening the status of regions.

Far from being able to speak about regions as homogeneous entities in the EU, although the definition of region is not a subject of this paper, we shall however note the existence of numerous critical voices which argue that there still is no operational definition of region, from a political, juridical and administrative point of view, at the EU level, that the region is not yet and will not be any time soon at a general level in the EU, an administrative-territorial entity endowed with political representativeness. Therefore, at the EU level, *the regional decentralization* can be described better watching the process of *regionalization*, which according to the typology of particular State, may be linked to *existing regions* as administrative-territorial units or *regions created* as new territorial divisions. Analysing comparatively the regionalization as a process aimed at developing regions as entities located immediately below the central state and above the local (sub-national and supra-local) in the 27 EU Member States (Chirleşan, 2007; Diez, 2006; Stănciulescu and Androniceanu, 2006; Androniceanu and Stănciulescu, 2001), we can distinguish five *types of regionalization*, as follows:

a). *Administrative regionalization (easy administrative decentralization - by deconcentration)* is the type of regionalization resulted from the transfer by a state to *local authorities or bodies directly subordinated to the central government* of certain tasks regarding the promotion of regional economic development by mobilizing local communities and economic

organizations. In most cases, administrative regionalization is a response to the need to implement the EU regional policy. The administrative regionalization characterizes at present, at the EU level, as a rule, *the unitary states*. Among the EU15 Member States, we can note Greece (where *13 administrative regions* were formed, responsible for regional development, led by a *secretary general of the region* assisted by an *Advisory Regional Council* consisting of representatives of local communities, in each administrative region existing a so-called *House of regional development*), Portugal (where there were formed *five regional coordinating commissions* responsible for the implementation of the regional development plan under the authority of government), the UK, except Scotland (known as a *“centralised model”* characterized rather by tendencies of centralizing than of decentralizing, the importance given to the regional level began to increase after the recognition of the political-administrative autonomy of Scotland, Wales and Northern Ireland) and Sweden (the regional level has rather little relevance as compared to the local level, traditionally very strong in the *“state of consensus”*, the administrative regionalization appears here under the form of delegating attributions of regional development to a *district governor* assisted by an *Administration Board* in which local interests are represented; in addition, regional competences include, primarily, the management of health services and of the system of education). The administrative decentralization also characterized the following New Member States: Bulgaria, Estonia, Latvia, Lithuania, Slovakia and Slovenia and knows also a great variety of forms. For example, in Estonia there is only one Estonian Regional Development Agency, the administrative regionalization is not reflected by the existence of administrative units or administrative regions, but by the fact that state's regional development policy is implemented in the 15 *districts* by a

governor, in Lithuania – the policy of territorial planning and regional development is managed by a *governor* at the level of the higher administrative units of *provinces / departments*, in Slovakia there are 8 *regions* and 8 *offices* of regional administration responsible for coordinating the activity of the local communities in terms of regional development. Luxembourg falls into this category as a particular case; due to the small size of the state, the four regions created do not need own institutions.

b). *Regionalization by cooperation between existing local collectivities (average administrative decentralization - by delegation)* is the type of regionalization by the agency of decentralized institutions within the local authorities, the functions of central government in the field of regional development being taken by the existing local collectivities. Unlike administrative regionalization, regionalization through existing local collectivities supposes effective transfer of competences from central government to the regions created as institutionalized forms of cooperation between territorial collectivities. This type of regionalization is limited both in terms of resources and of competences and institutions. At the EU level, this type of regionalization characterizes the *unitary states* – Denmark (14 *provincial communes*), Finland (20 *regional councils* and the so-called *unions of communes*), Ireland (8 *regional authorities* and several *specialized agencies*) and – from the New Member States – Romania (8 *development regions* established by law, by voluntary cooperation of the counties, without legal personality and not being administrative-territorial units, a Regional Development Agency existing at the level each of them) and Hungary (originally there were created 8 administrative regions, which were abandoned in 1994, their functions being taken over by the *provinces*, which may cooperate voluntarily with other provinces through *regional development*

councils). There is a particular case - Germany, a federal state characterized by *internal administrative regionalization* at the level of the lands (cooperation between local collectivities within the lands).

c). *Regional decentralization (advanced administrative decentralization and average economic and fiscal decentralization)* supposes the formation of regions as new territorial collectivities superior to the existing ones, whose competences regard the regional development. This type of regionalization involves changing the administrative organization of the territory by the emergence of a *new territorial-administrative category - the region*, of the same juridical form as the existing ones, but which is part of the constitutional order of a unitary state. This type of regionalism is characterized by the absence of legislative power, administrative competence extended to fields related to regional development and fiscal power that varies from case to case. At the EU level, this form of regionalization characterized France (“*unitary state in the process of decentralization*”, France currently has 25 *regions*, constituted as autonomous communities, as a result of decentralization of public administration and benefiting from the principle of free administration of local authorities, led by a *Regional Council* elected by universal, direct vote, the competences transferred to the regions following the decentralization process were the territorial planning, the professional training and the transportation infrastructure), Sweden (characterized by a strong tradition of local autonomy, has 20 *regions*, led by a *regional government* that implements the policies decided by the government, which have their own competence in managing municipal hospitals) and as for the New Member States - Poland (16 *provinces*, whose leader controls the respective local community), the Czech Republic (the formation, under the Constitution, of territorial collectivities of a higher level, in the form of 3 *regions*).

d). *Political regionalization* (*political decentralization* or the so-called “*regional autonomy*”) adds legislative power to the regional decentralization. *The regions* have legislative power exercised by a *regional assembly* and in order to exercise competences an executive body is constituted, which has the features of a *regional government*. The competences of the region are much broader in this case and are defined and guaranteed by the Constitution of the unitary state. The regions are not countries and do not have a Constitution and usually do not participate in the exercise of legislative national power by their own representation. This type of regionalization affects the state’s structures. In the EU, it is characteristic to the so-called *regional states* - characterizing the whole territory in Spain (the right of autonomy of the *regions* is recognized and guaranteed by the Spanish Constitution – the state’s structure is based on the indissoluble unity of the Spanish nation and also on the recognition and guarantee of the right of the regions’ autonomy), Italy (under the Constitution of Italy, the Italian Republic, unique and indivisible, recognizes, at the same time, the autonomy of *the regions* by adapting legislative principles and methods to the requirements of autonomy and decentralization, the regions have the power to adopt primary legislation and enjoy financial autonomy) or only certain parts of the territory in the UK (Scotland in particular) and Portugal (the islands). This type of regionalization does not characterize, currently, any of the New Member States.

e). *Regionalization by federal authorities* (*federalization*) is characteristic to the *federal states*, which were born as unions of states, therefore, *the regions*, in this case, are *states*, political entities, which have a series of regional and ethnic features. Unlike political regionalization characterized by an asymmetry of institutions and competences, the federal state supposes equality in the rights of the member states. At the EU level,

this form of regionalization characterizes Germany, Austria and Belgium. While the building of the modern state in Germany and Austria was done through federalism, in Belgium regionalism led to the federalization of the state, in order to allow the formation of a structure that shall ensure greater autonomy to the component units (the case of Flanders), which will progressively accede to the quality of a state. The model of federalism that characterizes Germany is called *cooperative federalism* in which power is distributed among three levels: federal, statal (Länder) and local (regions, cities and communes), the relations between these levels being relations of cooperation dominated by the idea of “*administrative intermingling*” of tasks and competences. From a fiscal point of view, all territorial levels participate to the tax collection to the extent to which they are also responsible for the expenses. As in Germany, in Austria the lands benefit from more competences and resources, their main function being the implementation of public policies, with the distribution of competences between the federation and the lands and the strengthening of the lands’ position being permanently debated.

Obviously, this last form of regionalization, due to its high level of decentralization and territorial autonomy, answers better, in terms of functionality and stability, to the complexity of *European governance*, the functional adaptations on levels (supranational - federal - state - regional - local) are more easily absorbed by the federal structures. This leads, however, to a series of wrong approaches, the federalism being considered an expression of regionalization or a response to regionalism as opposite to the Nation-State. The main concern in the EU is that *the combination of federalism and regionalization* affects the *territorial integrity*.

Conclusions and future concerns

What we aimed at in the start of this approach - a comparative analysis of the experiences and tendencies of decentralization at a regional level in the EU - led us to formulate the following conclusions:

- In the EU countries, *the regional level* covers various political and administrative realities, being the result of a process of *decentralization* that combines the specificity of the organization of the state's power in relation to the territory and the historical evolution of that state with the European Union's requirement, that of the existence of an administrative level inferior to the national level but higher than the local one.
- The *regional decentralization*, typical to France, and embraced by Poland and the Czech Republic, from the New Member States, is an exception rather than a rule in the EU.
- At the EU level, the *regional decentralization* can best be described following the process of *regionalization* which, depending on the typology of a certain state, may be related to the *regions existing* as administrative-territorial units or to the *regions created* as new territorial divisions.
- The most common type of regionalization in the EU27 is the *administrative regionalization* (Greece, Portugal, United Kingdom except Scotland, Sweden, Bulgaria, Estonia, Latvia, Lithuania, Slovakia, Slovenia), followed by the *regionalization through existing local collectivities* (Denmark, Finland, Ireland, Romania and Hungary), which represent rather functional responses to the EU's requirements in order to allow absorption of funds allocated under the regional policy.
- The more advanced forms of regionalization - *regionalization by federal authorities* and *political*

regionalization - characterize only 7 Member States of the EU: Germany, Austria, Belgium, Spain and Italy, Portugal (for the islands) and United Kingdom (for Scotland).

- The relationship *federalism - regionalization* responds better to the *European governance* of the *network type* and of the *multi-level type*.
- The expansion of *regionalization* in the EU is favoured by its approach as an *opportunity of regional development* and the blockages of regionalization are related to its approach as a *threat for the territorial integrity*.

Consequently, our future research efforts will focus on identifying and analyzing in detail some models of best practices that have proven effective in the EU for the regional growth and development.

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A NEW THINKING FOR A NEW WORLD. REPRESENTATIONS FROM ECONOMY

Negucioiu Aurel

"Dimitrie Cantemir" Christian University, Bucharest, Faculty of Economics, Cluj-Napoca

An incursion, even a succinct one, incomplete, in the universal history, in the world economic history and not in the least in the real world gives more and more "credit" to the idea according to which the movement is the main form of existence – working and evolution – of the society, economy, and of all the structures they are made of.

Movement means first of all change, transformation. Its "propellant", its internal cause is represented, in our opinion, by the unity and interaction of opposites. The changes, the transformations taking place in society and in its economy have direct or indirect authors the human beings who, using their minds, "leaven bread" and express at the beginning through thinking, the objectives that are going to complete or lessen reality. The positive changes and transformations that the people operate renew the world.

For more than half of a century, the humankind has been in a vast and very complex process of transformation, changes with innovative character. In other words, a process of building a new world. Hence, the need to create a new thinking. "A new thinking for a new world". Making a halt in the field of economics – theory, science and practice – we are trying to bring to attention to those interested a few considerations concerning the truth value of some paradigms in the theoretical circuit, including their degree of rationality or irrationality.

Key words: *capital, industrial capital, commercial capital, financial capital, human capital, social capital, microeconomics, mezoconomics, macroeconomics, national economy, mondial economy, mondoeconomy, world economy, economic development, eco-economic development, eco-economics, economic system, ecologic system, ecosystem, ecosococo system, economic culture, community, society, knowledge based society, knowledge based economy, economic paradox, social paradox, scientific paradox, economic risk, economic chaos, economic disorder, uncertainty, economic truth, economic transition, economic society, international society, post-capitalist society, digital economy, real economy, virtual economy, symbolical economy, market, rift, discontinuance.*

1. Instead of introduction

<< Everything starts as somebody's daydream. Life is made of the thoughts men have every day>>

– Ralph Waldo Emerson –

<< Any time a newly formed concept of the last sensations enters the store of memory, we encounter another one related to it, as soon as it is received by it, and it, alike, attracts another related one and so on >>

– Ian Amos Comenius –

<< The action which does not lead itself according to a thought (therefore a theory) is nothing but unconscious, blind action, like that of a highly strung arch when slacking. >>

– Eugeniu Speranția –

<< The history of the written word started 6000 years ago. The words say, the words explain and give advice, the words change, the words win, the words tempt, the words touch... Nothing is stronger than the right word at the right moment >>

– Mark Twain –

<< Self-control is the highest virtue, and wisdom is to speak truth and consciously to act according to nature>>

– Heraclitus –

<< In the domain of Political Economy, free scientific inquiry meets not merely the same

enemies as in all other domains. The peculiar nature of the materials it deals with, summons as foes into the field of battle the most violent, mean and malignant passions [...] the Furies of private interest >>

– Karl Marx –

<< Great historical men - whose own particular aims involve the substantial which is the will of the world- spirit. ... World historical individuals are those in whose aims such a general principle lies >>

– G.W.Hegel –

<< Thought is a key to all treasures; the miser's gains are ours without his cares >>

<< The key to all sciences is unquestionably the question mark. To the word HOW? we owe most of our greatest discoveries. Wisdom in life may perhaps consist in asking ourselves on all occasions: WHY? >>

– H. De Balzac –

<< Science is the eye watching, searching, making, thinking, waiting, catching the light, adding to past centuries the burden of the new centuries and, patient guard of time grabs from the universe, piece by piece, its timeless secrets >>

– Lacordaire –

<< Market economy is inherently unstable, and the source of its instability is based on the logics of its financial markets, that is why is necessary that the government steps in as a regulator >>

– J. M. Keynes –

<< ... the only important structural obstacles to world prosperity are the obsolete doctrines that *clutter* the minds of men >>

– Paul Krugman –

<< There is one thing stronger than all the armies in the world, and that is an idea whose time has come >>

– Victor Hugo –

2. Raising the problem

The concept of <<WORLD>> is a particularly rich concept in meanings belonging to the linguistic circuit, in people's language. According to several encyclopaedias, explanatory dictionaries of different languages and in other works, the concept designates, shows: 1. Everything that exists in reality – the material world (the world of things) and its reflection spiritual world (the world of ideas); universe, cosmos. 2. An assembly made up of Earth and visible stars, considered as an organized system; planetary system, solar system. 3. A vast field of reality distinguishing itself from others by one or several fundamental characteristics (alive world, organic world, inorganic world). To these meanings, the sources mentioned add more meanings that we call *particular* meanings and which, no doubt, enrich to a considerable extent the content of the concept of <<WORLD>>.

What we are interested in here is the assembly made up of Earth and visible stars considered as an organized making (organized system) – therefore, the <<Planet Earth>> system and its framework, economic and eco-economic realities. And here only the beginning – raising the problem.

The world, considering all the meanings of the term (concept) was, is and will be in a continuous movement. The movement represents the existence *mode* of the organic and inorganic world, and *time* and space are *its fundamental, general coordinates*. It – the movement, comes to life in the totality of *changes*, transformations, processes taking place in the universe, in and between their systems and subsystems. For representation, we mention that the movement and, thus, the change takes the shape of such processes or actions as: growth, depression and decrease, becoming, development and fall, progress and regress, evolution and involution.

From another point of view, the change takes the shape and comes to life through innovation, invention, improvement and modernization. Saying this we should not

forget that in reality there are not only these processes which, through their content and consequences are *positive*, but also processes and actions which connect us, such as imbalance, disorganization, destabilization and others.

Through the processes mentioned which give content and shape to movement and change is done the *passing* from past, to present and then to future or what means the passing from *old* to *new* in the real world and the world of ideas on it. Getting here we state that *the new* is not always superior, better, more beautiful, more efficient and necessarily more valuable than *the old* that it has replaced. This paradigm is available both for action and for thought.

The truth is that our earthly world that we are considering among us is changing, is transforming, therefore it is renewing itself with a speed many times unnoticeable, on larger and larger and more and more profound surfaces. The technical base of the capitalist society economy has climbed the stairs of progress with a speed that increased together with time. The simple labour mechanization gave way to complex mechanization and this, in its turn, was more and more passed by automation in different forms and higher and higher performances. The science has come down from the <<ivory tower >>, has transformed into an endogenous factor of production, of man's activity in general, has merged with the other factors of production in a more and more complete scientific and technical revolution which, for several years, has had a striking world character. Also, world like are the communication and information revolution. Currently, a harder and harder to pronounce „word”, that is a more and more significant role goes to the invisible revolution whose units of measurement start with the phrase <<*nano*>> – nanosecond, nanometre or nano-millimetre.

Related to these changes in the running and evolution of the capitalist economy, *the industrial capital* crowned as a „king”,

„emperor” or „president” – was deposed and replaced with the *financial capital* and nowadays the trend pushing to this „high” rank *the human capital* is stronger and stronger.

The <<*Mendeleev's periodic table*>> of the changes having taken place in the last 25-30 years in the contemporary world that our planet includes in its columns, the collapse of the old colonial system, the collapse of the socialist systems of economy and government, the formation of the third world, the expansion of the market economy through the orientation towards it of many of the socialist countries. A special part of this periodic table of elements includes by nominalization the cyclic, national, international and world economic crises, the financial crises within the same borders, the energetic, demographic crisis, the increasing economic and social inequalities among the world countries, the government and administration crises, the crises of science, education, culture, the increasing deterioration of domestic and international relations. And the things do not stop here. They do not merely exhaust the entire assembly of the changes having taken place and of those in progress.

2.1. World and thinking

The title of our lines was inspired by the well-known titan of economic thinking Charles Handy who inscribed on the three books translated into Romanian, too, the following *postulate-message*: <<***New thinking for a new world***>> (1)

Here, a *new* or a relatively new problem arises, that is the ratio or better said the ratios between *world* and *thinking*, between *the new world* and *the new thinking*.

Without lingering too much on this problem, yet it is an extremely important and contemporary problem for the scientific theory of knowledge (for epistemology), we will mention the following reasons:

1. The concept of <<World>> in its most general and comprehensible

meaning subsumes and expresses according to dictionaries “everything that exists in reality (material world, the world of things), universe, cosmos”. It means that thinking – regarded as process and result (the world of thoughts) constitutes an important component of the world considering the meaning mentioned above.

2. Therefore, the new thinking is an essential component of the new world.

3. The thinking (the knowledge) has an especially complex structure, containing several subdivisions or components. Karl R. Popper distinguishes the following *worlds* or *universes*: << first of all, the world of objects or that of physical states; secondly, the world of conscious states or mental states or, probably, of behavioural moods to act; thirdly, the world of the *objective contents of thinking*, especially of scientific and poetic thinking of works of art”. (2)

4. Continuing his examination, Karl R. Popper supports the existence of *two meanings* of knowledge or thinking: 1) *subjective knowledge or thinking* consisting in a state of mind or consciousness or of the behavioural or reaction mood and 2) *objective knowledge or thinking* consisting in problems, theories and arguments per se. In this view, knowledge is completely independent from anyone’s claim to know; it is, also, *knowing without knower*; it is *knowing without a knower subject* (3)

5. All these worlds of the new thinking represent organized components of the *new world* and their ratio is a ratio between *part* (new thinking) and *whole* (new world).

6. The ratios between new thinking and new world are especially numerous. It has been stated earlier that *Thinking* is part of the *world* and that the *new thinking* is part of the *new world*. Both are generated by predominantly objective causes, they appear, function, and evolve through spontaneous, consciously directed or mixed mechanisms.

The phrase <<*New thinking for a new world*>> represents, in our opinion, a postulate-message for the present time and especially for the future. This paradigm subsumes and concentrates in itself at least the following truths:

a) The system of the earthly world includes in itself a necessary component, human thinking.

b) The *new world*, already configured and built, organized, whose real existence is planet Earth, which legitimates it, contains as a constituent part of it a *new thinking* which describes it and shows, through the whole of thoughts, concepts, ideas, principles and laws.

c) The world seen as reality is the *object* of human beings’ thinking (of knowledge) and imagination. This object is covered by thinking from numerous angles, as a state, in movement, therefore changing and transforming itself, in the past and in the present. In this situation, thinking is *imitating and photographing* with the help of its own instruments what can be called the *copies* of different components of the real world or its *copies*, seen as a whole. It means that the real world *precedes* thinking or what is the same as thinking *follows* closer or farther the real world. What we have said so far represent only a true aspect, especially important, but, yet, only *an aspect* of the ratios between the real earthly world and thinking.

Another aspect – the second in our enumeration – consists in the irrefutable fact that thinking *foresees and precedes* more and more of the movements, therefore changes, transformations of different components of the planet Earth's system and, for many times, not only this.

To represent and ease the comprehension of this truth, we will further refer to the process of labour or production of goods which is *specific to human kind*, quoting Karl Marx : "a spider conducts operations that resemble those of a weaver, and a bee puts to shame many an architect in the construction of her cells. But what distinguishes the worst architect from the best of bees is this, that the architect raises his structure in imagination before he erects it in reality. At the end of every labour-process, we get a result that already existed in the *imagination* of the labourer at its commencement. He not only effects a change of form in the material on which he works, but he also realises a *purpose of his own that gives the law to his modus operandi, and to which he must subordinate his will. And this subordination is no mere momentary act.* Besides the exertion of the bodily organs, the process demands that, during the whole operation, the workman's *will be steadily in consonance with his purpose.* (4)

The history of earthly world, the history of human kind history mentioned in its pages that, in time, the role and importance of thinking has increased in more and more pronounced rhythms. Presently, the role of *forerunner and notary* of the evolution of society and economy on the steps of progress' historical ladder is being acknowledged. Moreover. There are savants stating with observable arguments that science and education must develop in more accelerated rhythms than the other structures of contemporary society.

And something else, too. A third aspect of the ratios between the real world and new

thinking is the expansion and thoroughgoing study of the processes of *thinking's rethinking*. Thinking is being rethought and, therefore, it is *renewing and re-renewing* and the patrimony of thoughts is getting *richer* both quantitatively and qualitatively. The value and the use value (utility), in other words the cognitive value and the applicative value of the new thoughts/ideas, enrich the world's fortune, the intellectual and material potential increases too, and, together with it, the possibilities, conditions of enriching and beautifying the style and way of living and those of levelling the standard living are amplified.

The truth is that the material forces and things can be destroyed only with material forces, but the *ideas, new ideas* have a considerable influence from the moment they have been understood and entered the world. "If we watch history from a larger perspective, it seems that the most influential people in the last 100 years – Charles Handy writes – were not Hitler or Churchill, Stalin or Gorbachev, but Freud, Marx and Einstein, people who did not change anything *except the way in which we think, but this thing has changed everything.* Francis Crick *is not today* a name known by everybody, but he is the one who, together with James Watson and Maurice Wilking, discovered the genetic code, the DNA, creating, thus, the science of microbiology and biotechnology industry that so much of our economic future might depend so much on." (5)

3. Eco-economy - A new branch of contemporary thinking (knowledge)

The tree of knowledge, of science (thinking) was completed at the end of the 20th century with a new branch. Its name is *eco-economy*. It is under construction, enlargement and thorough study of its own object of study – the *real eco-economy* – the birth of this new branch of science about nature, society and economy, its ontological status, its anatomic-morphological structure, its functioning and evolution mechanism, its categories,

principles and laws governing the movement of this economic-social-ecological mega-system, the order and disorder coexisting or succeeding, the mutual reports existing among the constituent parts of the mega-system as well as between the latter and each component, in part; and last, but not least, among the ecosocico systemic structure and other systems existing in the universe.

A radiography even insufficiently detailed of the *national economies* shows that these exist, function, and evolve in a multiple environment: *social-national and international*, in an *international economic environment*, to which the *political, cultural, and moral* environment are added.

The mutual reports between economy and the surrounding natural environment were born together with the human society and its economy. They multiplied, diversified, and changed structurally and qualitatively together *with* and *as* the human society and surrounding nature evolved.

The interactions between man (people) and nature, the multitude of relations and correlations in which these interactions took shape, manifested and still manifest themselves *gave content to these new branches and sub-branches of scientific knowledge and some specific genres of human activities*. The <<*vita activa*>> itself designates and underlines *three* fundamental activities: labour, work and action, each of them corresponding to <<one of the basic conditions in which man was given life on earth >> (6) Underlying the significance of each component of this <<*vita activa*>> Hannah wrote "Labour is that activity which corresponds to the *biological* process of the human *body*, whose spontaneous growth, metabolism, and eventual decay are bound to the vital necessities produced and fed into the life process by labour. The *human condition* of labour is life itself." (7)

"Labour is the activity corresponding to the *unnatural* character of the human existence, which is not imprinted *in* and whose death is *not* compensated by the perpetual cycle of

species life. Labour provides an <<artificial>> world of objects, entirely different *from* any natural environment.

Within the borders of this artificial world, each individual life finds shelter, while the world itself is meant to last longer and exceed all individual lives. *The human condition* of work *means* belonging to the world." (8)

"Action, the only activity that actually takes place between people without the mediation of objects or matter, corresponds to the *human condition of plurality*, that *men*, not the *Man*, live on earth and pollute the world. Although all aspects of the human condition are specifically the *condition* - not just a *sin qua non conditio* but also *conditio per quam* - to any political life." (9)

"The earth is just the quintessence of the human condition and as far as we know, the worldly nature is the only one in the universe that can provide human beings with a living environment where they can move and breathe effortless and without using artificial means. The artificial of the man-made world separates the human existence from any pure animal environment, but life itself is outside the artificial world and through life man remains related to all other living organisms." (10)

Above all, the labour, the production of material goods necessary to meet needs, interests, desires and human goals represented, still represents and will represent a *system of relationships, a process between men and nature*, a process in which people cooperating in a certain way and exchanging activities, intercede, regulate and control through their own activity the exchange of substances, of matter and energy between them and nature. Therefore the process of production and reproduction of material goods necessary for human living and society is, in a sense, the dialectical unity of a system of relationships - relationships that are established between people and relationships taking place between people, society and natural environment. The multiple interaction between man (humans), society and its

economy on one hand and the nature surrounding them on the other hand, is a *real* component of the universe where we are, one of its *mega-systems*.

4. Economy and ecology - Autonomy, identity, differences and unity

4.1. Economy and ecology

Undoubtedly, the *real economy* (*the real economic system*) and the *real ecosystem* (*the real ecological system or the natural environment*) as component parts of the objective - material reality have *their own ontological status* and thus their movement - functioning and evolution are mainly governed by *the laws of the universe* and by its *own laws* (specific laws). These components have their *relative autonomy and independence*. *The real economy* includes in its structure and content the assembly of all *productive forces*, the assembly of the *relationships* is established between people and the framework of the economic activity. The two assemblies - the productive forces and economic relations - seen in their unit and interaction - form what experts call *the mode of production* or the *economic system* in the extensive meaning of the term. In its turn, *the global ecological system* stands for the biocenosis and biotope assembly. These systems have the *self-creation, self-preservation and self-progress* ability by means of their own mechanisms. It is not accidental that the two systems – the ecological system and the economic system – represent *the objective* of some *distinct branches of science*, the *environmental science and economics*. The simple observation of reality shows that the ecological system and the economic system are not separated from each other by insurmountable borders and walls. And even more. There are not few situations where the economic and the ecological, more precisely parts of the economic constitute components of the ecological and vice versa, parts of the ecological represent components of the economic. *The ecological is economic* and

the economic is environmentally friendly. Meaning what? There are not few situations where the economic and the ecological, more precisely parts of the economic constitute components of the ecological and vice versa, parts of the ecological represent components of the economic. *The ecological is economic* and *the economic is environmentally friendly*. Meaning what? Meaning what? It is simply like that: people like all living things belong to nature, to the real ecosystem. And not only that. As many scholars argue *the man is the highest product of nature*. At the same time *labour force* represents *the most important factor of production*, one of the most important *forms of capital* – the *human capital*. The human capacity to work, the labour has always been one of the most important *economic assets*: under certain conditions it - labour - was a *commodity* and thus subject to the provisions, to the sale-purchase transactions. It is again the man, regarded as subject and actor of the economic life to get some other *economic co-determinations* as well, depending on the *place* he occupied and the *role* he fulfilled within the economic system. Thus, he was, is and will be the owner or non-proprietor, manufacturer, distributor, dealer, customer, creditor or debtor, or more at the same time, supplier, seller or buyer of goods| he is an agriculture farmer industrialist and / or small craftsman.

Yet, the process of reproduction and perpetuation of human beings is also, as it can be easily understood, *a complex biological, economic, social and cultural process*. (11) Simultaneously, other parts of nature become *real elements* of the economy at the moment and provided that they enter the economic cycle, the real economic flows.

The wood (tree) cut from a natural forest becomes raw material for the furniture manufacturing factory as well as for the pulp or paper manufacturer. The wood meant for home heating is a non random economic asset for consumption. It is also the case of other component parts of nature: coal, oil, natural

gas extracted and put into use as capital goods or consumer goods. The *land* itself is and is becoming part of the economy as a *means* of work, *object* of labour and *material requirement* of performing the production process. And it is not only that. The land gives every man <<locus standi>> and ongoing space for his actions. (12) The facts stated before are true to reality, and consequently they are truths - *relative* and not absolute truths, partial and not total truths. Why? Because the ecological and economic *identity is neither absolute nor complete* it is only partial and relative. Among them there were, there are and there will always exist numerous differences. To illustrate this truth Jacques Bonnet mentioned conurbations, techno-polls (techno polis), scientific and technological parks, teleports, innovation centres, business and commercial parks, industrial areas, highways advanced countries like streaking through the heavens surface rivers and streams. To these, the nominal economy, the symbolic economy, the entire set of activities, relationships and financial flows with flows of scientific, political, cultural, economic, electronic money flows, which together with the flows of scientific, political, cultural, economic information, with flows of electronic money, constituting what scientists have called <<invisible flows >> and managing <<visible flows>> object - material goods respectively, other object goods - and people in motion. (13)

4.2. Ecology and economics – two sides of the same coin

At the risk of repeating we note that <<the differences between the ecological system and the economic system *do not cancel* their *identity* or *uniqueness* elements either>>. And even more. According to the authors of the book <<The Fourth Wave>> metaphorically consider, “Ecology and *economy- are* two sides of *same coin*. Here the currency is OIKOS, our planet is the Earth, the cradle of the whole life. *Ecology* studies the correlations between the Earth and all its

inhabitants, economy strives *to manage* these relationships. As science, namely as a branch of science, ecology has existed for more than a century or so and during this period it produced revelations that enable economists to manage the planet better than they and their disciples did before in the business world.” (14) Indeed, ecology and economy have, etymologically speaking, a *common root - oikos*. Economy has its etymological roots in the Greek oikonomia composed of *oikos* = house, household, city and *nomos* = law. *The roots of ecology* as a branch of the scientific knowledge, as a science, are also two Greek words - *oikos* in the sense above mentioned and *logos* = *science, speech, lecture, order*.

The root <<eco>> is also present in the name of both sides of the coin: *eco-nomy* și *ecology*. Both the ecological and the economic are, by structure and content, through their configuration and mechanisms – systemic compositions, in short systems holding their own status. The ecological system and the economic system. By joining the concept <<system>> to <<ecologic>> we get the concept of <<eco-system>> which subsumes, focuses and expresses itself and expresses, for most scientists, if not for all of them, the *ecologic system*. The meaning benefits of triple significance legitimacy: etymological, historical and logical-scientific. <<Eco>> subsumes and expresses the main content of the Greek oikos - so what is common to both *ecological* and *economic*, so the *identical* in them. No doubt, the <<the right of the first to come >> works here as well. Nevertheless, semantically and scientifically, the notion <<eco-system>> could be also translated, in our view, as both the concept of *ecological system* and as the *economic system*. (15)

5. The <<eco-eco>> mega-system in reality and in thought

It is now increasingly recognized that the economy and natural environment are *two systemic compositions*, two organic systems that are organically and indestructibly *related*

to each other and just as indestructibly and organically *integrated* with each other in a *new* more elevated and superior *composition* of existence and movement-operation and development. We have given, we do not know how rigorously *the name of mega-system – the eco-eco mega-system.*

The concept of *mega-system, eco-eco*, as well as the concept of ecological system, economic system or system in general has *two main meanings*: the *real* eco-eco mega-system - a structure of a slice of *reality*, in our case the *real eco-eco mega-system* (real economy) that exists objectively, independently of the will and conscience of human beings. In this determination the real eco-eco mega-system at one point became the object of scientific knowledge, a branch of science. This means that it existed before scientific knowledge, and it was and will be throughout knowledge and it will be in the future as part of reality and as object of the scientific knowledge. The *second* meaning of the eco-eco mega-system is of a *theoretical eco-eco system*, product (construction) of the human mind, which through knowledge, takes possession of the *real intellectual eco-eco system*. In our view, *the theoretical eco-eco mega-system* represents a *reflection* with the help of thinking, a copy, a photograph of the real eco-eco mega-system, a *shadow* of it. <<Materials>> out of which and with the help of which they build this mega-system are, generally speaking, the same *from* and *to* which the human mind constructs them.

Basically these <<materials>> are thoughts, words, terms or concepts, categories, ideas, paradigms and even pre-paradigmatic constructions, principles and objective laws that generate movement- functioning of ecological economy, its growth and development. The level and scope of the scientific knowledge of real eco-economy, of the real eco-eco mega-system are given by the degree of concordance of the *theoretical* mega-system with the real mega-system but however high this level, or extended in length, width and depth the *knowledge*

acquired, the two systems *are not and never can get to be identical*. They are and will always be *different*. No matter how successful a photo would be it is not identical with the photographed object. No matter how tight the link between an object and its shadow is, however they denote different realities, even if they share some similarities. As complete as a map of a geo-economic determined space could be, and as numerous and useful the information it provides may prove, it is not *identical* with the *reality*, with the spaces they depict. The map and the respective space remain different things. The map of a country as individualized object can be reproduced in hundreds and thousands of copies, which is *impossible* with the represented geo-economic space.

Here is the place to mention that due to the fact that the real natural environment, the real economy and eco-economy (the eco-eco mega-system) stand for a very diverse reality and they are in a process of continuous diversification. As a result, experts have spoken on and speak about local eco-economy, regional eco-economy, national eco-economy, international, and lately, especially of global or world eco-economy. Simultaneously, it has been spoken especially of European, American, etc. economic *models*. Lately it is about the U.S. economic model, Canadian model, the German and the French ones, the economic models of the Northern European countries, the Japanese model, the Chinese one etc. In order to enlarge the image of models we also add numerous sets of models of growth and economic, social etc. development as well, which were quite frequently <<named >> according to their <<architects and constructors>>. Currently <<Mendeleev's table>> of growth and development was completed, generally speaking, with another box – the box of *eco-economic models*, the models of economy based on following the *ecological* principles. It is beyond any doubt that the names of most of the investigated models were correct and have their origins

rooted in the reality of our universe. It is not less true that the realities that concepts and models considered have proved to be highly dynamic. This circumstance began to weaken over time, to reduce the correlation between a concept, a paradigm, one model or another and the reality that it subsumed or expressed and wanted at a certain time. To make it easier to understand, we mention that the increasing, extending and deepening of the globalization processes of socio-economic life have imposed and still impose not only the completion or alteration of some concepts, categories, idea and paradigms, but they have sharpened the need to find some new concepts, ideas, solutions for the nomination and solving the new global issues. And let us not forget that one of the largest and most complicated cases of globalization is the very *globalization of the economy*. Most, if not *all major* problems of contemporary world are the global problems.

6. Challenges, challenges, and challenges again

6.1. Setting the theoretical conceptual system

The emergence of the science of eco-economy is, in our view, a real leap in the progress of the human knowledge. Its importance is not simply the emergence of *new branches*, apparently, extremely, extremely vigorous in the great tree of knowledge and in the structure of the *new thinking*. As *we* understand things, the emergence of this new branch of science amounts to "a genuine *gap*" in the strong and durable wall of knowledge. It means the lighting of torches that already lights a <<space>> until recently left in darkness. Now the respective <<space >> is <<conquered>> and taken in possession, at least partly, by mankind. Consequently, *the powers* of man and mankind increase as knowledge, science have always meant, mean now and will mean in future more light, safety and power.

Like other branches of science, eco-economy did not appear suddenly and in a perfect form from the very beginning, with an anatomic-morphological structure completely cohesive and fully matured by matching and linking thought with action, thinking with experience, phenomenon with essence, form with content, confirming, legitimizing true thoughts and ideas, denying false conceptual construction, discovering and correcting its own mistakes, *the eco-economy science* will be able <<produce>> its own <<mirror>> its own language and eventually its own theoretical system. This is *the first* and *one of the biggest challenges*, its own <<site>> open starting with its birth and having no end. Let us not forget that the science of eco-economy <<will be the first to speak>> but will never say its *last* word. It is always absent. The struggle with this challenge is not easy at all, as it may seem at first sight.

On the contrary, it is permanent, difficult, and full of bigger or smaller surprises. In other words it is a system of equations with a huge number of unknowns. Many *factors* are positive, negative and potentially neutral putting their striking stamp on the process as well as on the final outcome. For illustration only, here we mention the following factors:

- *The philosophy* that combatants – researchers rely on, thus accept, support and promote;
- The *methodological position* the researchers of eco-economy lie on;
- The *degree* of arming of the combatants with the advanced opportunities of having access to information and their processing and interpretation capabilities of the stock of information - <<the raw material "truth" is made of>>;
- The *discrepancies*, sometimes important and very important, between reality and appearance, the thickness and density of appearance;
- The *differences* and inconsistencies between what is seen and what is not seen;
- *The complexity* of the ever widening of the reality of past world and of the world of

present realities. And do not forget that although the present is extremely small in duration, as reality it is a composition that combines components of the old world and new world, that the interaction between them can take the form of struggle, of mutual rejection, of mutual rejection, of collaboration, cooperation and many other forms.

- The subjective charge, be it large or small, still present in the personality of the combatants (researchers);
- Other factors whose number by far exceeds the number of above mentioned.

6.2. The place and role of the real ecologic and of the real economic within the real eco-eco mega-system

As already mentioned, the eco-economy, the eco-eco mega-system represents the unity and interaction between economy and the natural environment. The true knowledge and the more complex understanding requires further clarification of *the place* that each of the two components occupies and of *the role* that the two fulfil within the mega-system. This challenge is *particularly topical* also because <<the map>> of knowledge, of the means of knowledge and interpretation of the mega-system continues to be divided into different areas.

The most vivid, most heated controversy take place between *environmentalists* and *economists*. There is a very successful description and presentation of the dialogue that occurs between these researchers in the famous book by Lester Brown – *Eco-economy* (16). According to him:

- Environmentalists consider economy as being part of the environmental system;
 - Economists consider the environment as part of the economy;
 - Environmentalists are the first ones concerned with the limits of the natural environment, of the finite character of the planet and of resources;
- Economists* tend not to recognize such constraints;

- *Environmentalists*, following the signs of nature, think in terms of cycles;
- *Economists* prove a rather linear or curvilinear thinking;
- *Economists* have great confidence in the market;
- Environmentalists often fail to accurately assess the market.

<The gap between *economists* and *ecologists* in their perception of the world at the beginning of the current century cannot be any higher. *Economists* look at the unprecedented global economic growth, trade and international investment and see a *promising* future. They notice with justified pride that the global economy has increased sevenfold since 1950, the income increased from \$ 6 billion in goods and services to 43 billion dollars in 2000, and raising living standards to levels undreamed. *Environmentalists* look at the same growth and believe that it is a result of *burning huge quantities* of artificially cheap fuel, a process that *destabilizes the climate*. They look ahead and see *more intense heat waves*, more devastating *storms*, the *ice caps* melt and the sea level ever growing resulting in restriction of the dry surfaces even in the context of a ever growing world population.

The economists consider *the market* as a *guide* in taking decisions. They respect the market because it can allocate its resources with such an efficiency that cannot ever be achieved by a *central planner*. *The ecologists* relate to the market with less respect because they see *a market that does not say the truth*. *The ecologists* see the economical growth in the last decades, but they also see *an economy that grows in conflict with its support system*, an economy that *rapidly depletes the natural assets of the planet*, moving the global economy towards a development of the environment that will inevitably lead to an *economic decline*. They see the necessity of a complete *reconstruction* of the economy in order to come into compliance with the system.

Noting the variety of the opinions, in this case of the ecologists and of the economists, and especially of their divergent character, we put the following questions: Who is right? Who is closer to the truth and to reality? In our view, the mentioned opinions contain a number of ideas and paradigms that can be the core of some credible answers, that resisting in front of all the questions acquire the value of truth and can be considered authentic knowledge in the heritage of the eco-economy.

Analyzing as carefully as we can “the dialogue” or more correctly “the dialogues”, we detached and we retained the following views:

- a) Although the real economic system has its own identity and functioning and ontological status, *its interdependence* with the natural environment *is neither total nor absolute* but only partial and relative.
- b) Between the surrounding nature and the real economy there are a lot of mutual relations of interdependence, dependence, and interdependence. They are in a continuous *interaction*. The environment influences in a multilateral way the real economy. In turn, the society and the economy have created their own artificial environments that have been implemented in the structure of the natural environment.
- c) The identity relationships, dependence and interdependence existing between the two compositions have generated *a new composition, having a superior organization, existence, operation, and evolution*. This composition represents *an authentic mega-system* that we call the *ecoeco mega-system* – in fact, the real economy.
- d) The ecoeco mega-system is a *contradictory* composition, *a unity of opposites* that presume each other and are linked to each other. The two main opposites of the eco-economy are and will remain the ecology and the economy.
- e) The divergence of opinions “the ecology of the environment is broader than the economy; the economy is part of the surrounding nature” and the opinion according to which the economy is more comprehensive; it includes nature in its structure and its content. Who is right? Which of the two opinions is closer to the truth? The truth is that the economy exists, functions and develops within the surrounding nature’s system. Moreover, the economy will exist, it will be able to function and to develop normally only as long as the surrounding nature will support it, only as long as the material support of the economy will resist.
- f) It is difficult to establish the boundary between ecology and economy. In this respect, the obstacle is represented by the identity elements awakened in both systems. The human being is, in the same time, an essential component both in ecology, as a biological human being, as well as in the economy, as workforce, capital, production factor, economic actor, etc.
- g) The human being and the human beings play a paradoxical role in the ambient environment “Biologically speaking, says Barry Commoner – people are part of the ambient system, like the elements of a whole. However, the economic society is made in order to exploit the environment as a whole, to produce wealth. Our paradoxical role that we play in the ambient environment as participants and as explorers distorts our picture of it.” (17)

Over the years, especially in the developed countries of the world, people have built an artificial environment through their activity

that continues to create a sensation and an impression that because of this environment, whose engine is considered to be the machineries, people have got rid of their *dependence on* the natural environment. Error, illusion, delusion. Why? At least for the following reasons:

- “*The living creatures* are composed almost exclusively of the same four elements: hydrogen, oxygen, carbon, and nitrogen – four elements that originally formed the initial atmosphere of the Earth.” (18)
- *The source of life* is represented by “the thin air, water and soil of the earth and the sun rays that bathe it”. (19)
- *The natural environment* “is one living machinery, huge and very complex, that constitutes a thin dynamic layer on the surface of the Earth and every human activity *depends* on the perfect state and good functioning of this mechanism”. (20)
- And “no economic system can be considered to be *solid* if its functioning *seriously violates the principles of ecology*” (21)
- h) *The crucial and the decisive factor* in the ecoeco mega-system, in other words within the *eco-economy* is *planet Earth* (the environment). The limits of the economy’s growth and development are given by the planet’s limits to *support* both the economic growth and development. And the most important thing – *an economy tolerated by the environment* and also *on long term, sustainable and viable* in concordance with *the principles of ecology compatible with the principles of ecology compatible* with the environment, which Lester Brown called *eco-economy*, that is ecological or green economy.
- i) *The human being’s domination over the nature*. Preoccupied by the “well-

being” in general, Rene Descartes argued that people should become, by the help of the science and technology, “*possessing masters of the nature*”. “As soon as they have possessed some general notions of physics, tested in some difficult cases, we noticed, he said, how far they could take us and how different they were in comparison with the principles used so far. I considered that I could not keep them secret without making a sin against the law that forces us to contribute, as much as we could to the *general well-being*: they showed me that it was possible to reach valuable knowledge for life and instead of that speculative philosophy that was taught in schools, in order to find a practical one, by which to know the power and action of fire, water, air, stars, sky and of all the things that surrounded us, as well as we knew different jobs, we could use them in the same way for all our objectives *thus, becoming masters and possessors of nature.*”(22)

Paradoxically, for a long time, people believed and unfortunately they still do nowadays, that *one of the essential criteria* of the economic and social development is *the degree of possession, the degree of domination of the human beings upon nature*. Moreover, the extremely accelerated development of the science, technology, informatics and communication, the astonishing growth in speed of the means of transport, and especially the rapidity with which information flows, practically the death of space and time, the manufacturing of some products having the same characteristics of the ones made by nature, as well as the production of some products (goods) that cannot be found in the nature and such other remarkable progresses that induced to many human

beings *the illusion of acquisition, the conquest of an absolute and total independence* towards nature and its forms. Therefore, the human being has conquest the nature, and its economy represents that “body” that is in our planetary *center* in the form of a central axis, around which all the other systems spin around. The human being considers itself the planet’s *lord almighty*, totally independent from it. Again *mistake, illusion and delusion*. How can be a human being totally independent of nature, when this is an organic element of the planet Earth. How can the human being believe that there is an absolute independence when its entire real economy is based on nature, substance, substance, energy and force of nature?

Such an understanding of reality, illusions and myths generated by the mentioned mistakes has introduced “*bad elements*” in the attitudes and behaviors of the human beings. Therefore, for most of the economic actors, as well as among the representatives of the economic theory, what mattered and really matters primarily is *the gain, the maximum profit* and because of these their economic domination and not just economic, their domination upon some elements (parts) of nature had and unfortunately still have a *colonial, usurper and destructive character*.

j) *The economy is self-destructive*

The human society along with its economy, exists and moves, functions and develops *in time and space*. The second half of the twentieth century is known as being rich in *economical progresses*. Among these, we mention “an unprecedented global economic growth, of commerce and of international investments (...) the global economy has increased seven times since 1950, the global income has increased from 6 billion \$ in goods and services to 43 billion \$ in 2000, raising living standards

at unbelievable levels.” (23) During this fragment of history, in the advanced world, there was a society of welfare, frequently called “consumer society”. Also during this period, the technical and scientific revolution has clearly stated its dimension in the geographically, its intensity and depth often exceeding most impressive imaginations. The IT and communicational revolution has made, according to some inspired expressions, “for time and space to disappear”. It is worth mentioning, the thawing of the international economic relationships, the international economic integration and not least, there could be seen clear signs of globalization in the economic and social life. This is the way the world looks like, seen in its economic mirror.

Willing to complete the image of Planet Earth, we *have turned to the green mirror* and this is what we have noticed: the same economic increase and development has been *presented* as being the product of burning huge materials of cheap fossil fuels, which contributed a lot to climate *destabilization*. Simultaneously, this mirror has presented waves of intense heat, storms and more devastating tornadoes, ice caps are melting, the higher sea levels, and restricting land surface, even in the context in which the planet’s population is growing. (24)

So, two mirrors, two images and beyond them two states. AS Lester Brown Noticed “while the economists see explosive economic indicators, the ecologists see an economy that deteriorates climate with unpredictable consequences. The economy follows the way of *self-destruction*. Moreover, the mutual relationships between the two elements of the ecoeco are seriously deteriorated and thus, the dangers that are threatening more and more the *state* (the functioning and evolution) of the entire planet. *The most eloquent form of the*

ecology's and of the eco-economy's self-destruction is the crises in which they are struggling.

k) *The challenge of challenges – the conversion of the economy in eco-economy*

The science of economy has a lot of challenges. In our opinion, a complete inventory is impossible to be done. The “Mendeleev-like” picture of the economic sciences’ challenges will always be completed with new blocks and new “elements”. But it will always remain *open*. This is the case with all the branches of science. The history of science, of all its branches, tells us and proves to us the fact that the science has the *first* word but it does not have the *last* word. Acknowledging this truth, we sought to find a challenge of challenges among the ones already identified in the private economy as reality and as a science. This is “*the conversion of economy in eco-economy*”. This was stated by Lester brown who noticed the fact that “the conversion of the economy in an eco-economy represents an *extraordinary challenge*. There is no precedent in the action of transforming an economy based mainly on the market forces in an economy formed on the principles of ecology” (25)

Why is this conversion necessary? Lester Brown considers that “today’s global economy has been formulated by the market forces and not by the principles of ecology. Unfortunately, due to *failure* in reflecting *total costs* of the goods and services, the market provides information that mislead the decisive economic factors at all levels. This aspect has created a *distorted* economy, which is in conflict with the ecosystem of the planet – an economy that *destroys its own natural support systems*.” (26)

“The market does not recognize the ecologic concepts of tolerable production and does not respect the balance of nature.” (27) According to Lester Brown, “An economy is

an economy that satisfies our demands without destroying the perspectives of the future generations to fulfil their needs, as the Brundtland Committee has underlined 15 years ago.” (28)

Following these ideas, Lester Brown notices: There have been enough records regarding the fact that, gradually, our global economy *undermines itself* on several levels. If we want for the economic progress to continue, we have only *the small chance of systematically restructure the global economy, in order to make it bearable* for the environment.” (29)

These truths are undoubtedly confirmed by the *ecologic crises*, by the deep cracks of the correlations between the economy’s structural links as well as between the different components of the planet Earth, plus the serious contradictions between economy and nature. And we must not forget the fact that all or almost all these phenomena and realities have their source in the *models* of economic and social growth and development that have become more and more not only *un-ecological* but also *against ecology*.

7. In search for a better world

The people regarded as living human beings, and not only they, are obviously and constantly concerned with the improvement of their situation (state). Mentioning this general feature of the living, Karl R. Popper noticed that “Everything that is living is *in search for a better world*. The people, the animals, the plants and even the unicellular organisms are continuously active. Even in sleep the body actively maintains that certain state of sleep, actively defends itself of what is disturbing, of the environment. Any organism is continuously preoccupied with *finding solutions*. And the solutions appear from the evaluation of its *state* and of its environment, trying to improve them. The attempt to solve them, often proves to be wrong, leading to worsening. Then, other solving attempts, other test movements follow. Thus, along with life – even from the

unicellular organisms, something extremely new appears (something that has never been before: problems and active attempts to solve them evaluations, values, trial and error) (30)

The actors implied in solving the problems are researchers, finders, discoverers. The activity, the anxiety or the curiosity that is given by the research are essential elements for life, for everlasting hope, for search, evaluation, finding, for learning, for value creation, for improvements, but also for the everlasting mistake, as well as for non-values' realization. The items listed are part of life.

Karl Popper believes that "the bodies searching for a better world find invent and change new environments. They build nests, dams, mountains, but their creation with the most significant consequences is obviously the reshaping the earth's atmosphere by enriching it with oxygen; in turn, a consequence of discovering the fact that sunlight can serve as food. Discovering this inexhaustible source of food and of the multiple methods of capturing sunlight, has created flora. And the prediction for the planet as a food source created fauna. We have created ourselves by inventing our specific human language "(31) and influencing our mind and thought with it. The instinct, the intuition and the science (knowledge) have constituted and are still constituting the main elements of the search for a better world. The sentences uttered by people represent "the main instrument with which they can describe their states." Reaching this point we have to mention the fact that the sentences help people express objectively the truth discovered by human knowledge. Mainly in the sciences of nature – "the search for truth is connected to everything that is good and impressive of what life created in search for a better life." (32)

But the reality also shows us that people, searching for a better world, have committed many errors, sometimes big ones. The saying

that "everything that is alive commits errors" is true. As K. Popper underlined, "it is obviously impossible to anticipate all the unwanted consequences of our actions. The science of nature is our biggest hope here: the method is to correct the mistakes." (33) In this way of understanding the problem, it is obvious that the expansion and the deepening of the scientific knowledge, by which the society and the human beings take intellectual control over a growing field of reality represents and will represent the most probable way to follow in order to achieve big successes. In our opinion, the science, the knowledge is the compass that help people to orient and to lead its ship on the stormy waves of time. We like to believe that our words, even if they are not rigorous and exact, are somehow close to the truth. Towards the end of the 20th century, the science and the scientific knowledge has recorded remarkable progresses, and according to some appreciations during this period lived approximately 90% of all the scientists who have ever existed on Earth. We also like to notice the fact that presently the human beings, the contemporary world acknowledge an invisible revolution in informatics and communications, whose main unit is "nano". These powerful engines and forces push the human beings in a society based on scientific knowledge. However, in spite of these realities, the present society and its economy have much more problems than in any other past period, problems having no answers, no solutions. Paradoxically, the progress of the scientific knowledge discovers and creates new and new problems that are waiting to be solved.

8. A free market or another type of market?

A brief foray into the history of the economic thinking convinces us easily that since the modern age, the economists have given the market a special role. In other words, the market has captured more and more the attention of the economists. For *Adam Smith* the market represents the regulator of the labor division. Its volume determines the level reached by the division, this process, this accelerator of production. Moreover, the market is the place where “the invisible hand”, the offer and the demand intermingle and are balanced automatically on the market, through prices. *Simon de Sismondi* considered that the mass consumers, their demands, the proportions of their consumption and of their incomes – all these form the market for which every single producer works. *Raymonde Barre* defines the market as being a “network of relationships between the agents who make the shift, that are rigorously communicated through certain means.” According to him, the market consists of distinct economic centers, linked together by means of exchange networks, joined by a network of forces. These centers are production centers, supply of production factors and of goods. They are linked by a functional solidarity that comes out from the necessity of their interest in developing the economic activity. For Michel Didier “the market is a social institution.” For him, “the market appears as an overall means of communication, by which sellers and buyers inform each other about products and prices before transactions are done. The markets are communication networks.”

J. Bremond and A. Gélédan write in the Economic and Social Dictionary that “the market is the place where the offers of the sellers meet the demands of the buyers, being adjusted at a certain price. The market is thus, a way of confronting demand with offer in order to make a change of products, services or capitals.”

A quite remarkable definition, at least for us, belongs to the Polish economist Oskar Lange. He noticed that “the market is the first ordinator put in the service of man, a self-regulating machinery ensuring the balance of the economic activities..” (34) D’Avenal noticed in the language of his era, of the honest liberalism: „Even in the situation when nothing is free in a state, *the price* of the things remains free and would not be enslaved to anyone. The price of silver, land, labour, the prices of all the goods and services have never ceased being free; no legal constriction, no agreement between people have enslaved them.” (35)

In *Fernand Braudel's* opinion “These considerations implicitly admit that the market that is *not directed* by anyone, it is the *mechanism driving* the whole economy. The economic development in Europe, and even in the world, would be *the development of a market economy* that has constantly increased its area, including in *its rational order* more and more people, more and more economic communications, close and remote, which tend to create, *all together*, a *unity* of the world.” (36)

Still, what are the status and the condition of the market in the nowadays world? A comprehensive answer fully argued by confirmed facts and thus legitimized, not by questionable opinions sometimes even refuted by reality, does not fit in the pages of a communication no matter how extensive it might be. Therefore, we will limit ourselves to not more than a summary, yet as comprehensive as possible, insisting on the following:

- Market - conceptually, its anatomical-morphological structure, the forms (types), the way of operation and development, its place and its role in the contemporary economy continue to be the subject of extensive and lively theoretical, methodological and practical confrontations.
- Trying to summarize, a group, of course relative, we believe that on the large field of confrontations about market one can

generally distinguish *two trends, two approaches*, namely: a) classical and contemporary *liberal approach* and b) *non-liberal approach* with its subdivisions as well as the former.

- In the *liberal approach*, the market is a general mechanism, *self-regulating*; it is comprehensive and accomplishes, performs and assures in itself, through the *spontaneous action*, the *efficient* allocation of *resources*, of production factors, *orients* the economic movement according to the individual needs and interests of the economic actors, while ensuring the maintenance of balance between the links of the social division of labour, between supply and demand. The *economic basis* of the market economy is formed by the private ownership of means of production, the fundament of autonomy and independence of actors and therefore the base of the freedom of thought and movement of production factors, goods, capital and economic actors.

- The most important constitutive <<parts>> of the market and its mechanism are: profit, demand, offer, the interplay between demand and offer, free competition and price.

- This free market is by definition a pure and perfect market and ensures also pure and perfect functioning of the free market economy.

- According to the second approach, the market is indeed the most important mechanism of operation and development of economic life. The advocates and the supporters of this way of understanding the market and the market economy believe, however, that the market economy and the free market economy are not the same thing. The two concepts are not identical and should not be confused. Saying these and referring to the era we live in, we feel the need to add that in the debates that take place, it is often not said what is a confirmed truth, and, for various reasons, some truth containing paradigms are premeditatedly similar. As an example we can here mention a work, remarkable in our opinion, which presents a

total of 23 things we are **NOT** told about capitalism. (37)

To exemplify, we shall present in a summary the main ideas contained in Chapter 1 of the book, entitled: "*There is no free market*"

"*What you are said*"

"Markets should be free. If governments dictate what market actors can and cannot do, the resources cannot get where they would be most effectively used. If they cannot do what they consider profitable, people lose their desire to invest and innovate. Thus, if the government limits or sets a threshold for rents, the owners lose their desire to maintain the properties and build new ones. Or if the government imposes a restriction on the types of financial products that can be sold, then the contracting parties, which could have benefited from innovative transactions that could meet their specific needs, would not be able to obtain the potential gain from a free contact. People need to be "*free to choose*" as said by the title of a famous book written by the prophet of the free market, Milton Friedman." (38)

"*What you are not said*"

"The free market *does not exist*. Each market has certain rules and limitations that *restrict* freedom of choice. A market *seems* to be free only as we accept unconditionally the default restrictions, which we can no longer see. There cannot be defined how <<free>> a market is. *The definition is a political one*. The usual statement of the free market economists, that they *try to defend* the market from political interference, is rather false. *The government is always involved*, and the free market advocates are *politically motivated* as much as anyone. *The first step* to understanding capitalism is *overcoming the myth that there objectively is a <<free market>>*.

The paradigmatic assumption, that nowadays there is no, and can never be, such thing as a pure and perfect free market, all-comprising and all-knowing, omnipotent, regulated by nothing and fully unregulated or deregulated, directed by nothing and completely

undirected but totally spontaneous, expresses a *truth confirmed*.

And yet apparently there is something more that needs to be said. Okay, okay - there is no free market, but what is there? In our opinion there is a market or, as Maurice Allais writes, a markets economy. (39)

A short journey through the history of economic thinking provides us with no little evidence - arguments that show convincingly that the market and the market economy are, as mentioned, much older than the capitalist market economy. The same journey provides unequivocal evidence showing that the presence of *free competition* – a fundamental element of the free market economy-, has never been comprehensive, but for a short period of time it was dominant especially in England and that it *committed suicide* according to the expression of K. Marx. The place of the morphological-anatomical atomized structure of the economic actors, of the capitalist economy, has changed due to objective economic laws – concentration (accumulation of capital, concentration of production), centralization of capital and production, of economic activity in general, competition law, uneven development – have generated a new form of capital, the monopolist capital, which personified itself as a specific type of economic actor – the monopoly in various forms: cartel, syndicate, trust, concern, corporation, etc. At this stage, competition itself has changed both its content and its forms of expression. Basically, at a growing scale, free competition gave way to monopolistic competition; full competition - pure and perfect - became imperfect competition, etc. At the same time, the mechanisms, the means and the methods of action have changed. This very thing made the subject of research of political economy become richer and more complex. The new economic reality could not fail to attract the attention of the representatives of this branch of science and not only. For illustration we mention that in 1933 two relevant works were published: the

book of the economist *Joan Robinson*, Professor at the Faculty of Economics in Cambridge University, entitled "*The economics of imperfect competition*" and, again in Cambridge, but in the United States this time, *E.H. Chamberlain's* work, entitled "*The theory of the monopolistic competition*". Also for illustration, we add the name of JM Keynes and several of his works, of which the most important, for its content and cognitive, methodological and applicative value, is "*The General Theory of Employment, Interest and Money*" (1936).

Keynes's thinking and that of his followers, in fact Keynes's *model* was in a sense <<the orienting compass>> and the theoretical basis of operation and evolution of the Western economy and society after World War II until the early '70s of the twentieth century. The name given to this society is <<*consumer society*>>. The world economic crisis of 1973-1975 interrupted the way of the industrial consumer society. The same crisis, specifically the way it was addressed, understood and explained, constituted a clear *rejection* of Keynes thinking and a *powerful return of neoclassical liberalism*. Keynes's theory and the policies that had been inspired by it were brought to the *culprits* <<*lodge*>>. In this context, two schools of thinking were set up. *First*, there was a *new - and final - attempt* to make a *synthesis* between the *neoclassical* and the Keynesian analyses, synthesis performed differently than the first. Its authors were <<the theorists of the imbalance>> led by the French economist Edmond Malinvaud. This current of thinking believes that imbalances and long-term unemployment are possible in a world where prices and wages are flexible, but it considers that these phenomena are caused by *an insufficiency of global demand* - Keynesian unemployment and *an insufficiency of offer* - classic unemployment.

The second trend is the ultra-liberalism (Hayek - the foremost representative), the monetarism or perhaps more accurately, the monetarisms (whose no.1 representative is

Milton Friedman), plus the neoclassical economics (foremost representatives being Robert Lucas, Thomas Sargent and Neil Wallace)

The third monetarist trend is the supply-side economics of (Arthur Laffer at the forefront of followers). (40)

<<The victory >> of neoclassical liberalism was an apparent victory and on short term only. The end of the first decade of the third millennium saw a complex and deep economic and financial crisis, a crisis of governance and administration, as well, which, in their interaction, resulted in a deep rift in the operation and development of economic, financial-monetary and social life of the current world.

This crisis, more accurately the assembly of crises, that swept our world, closes a period and represents a milestone and a starting point in the human history, a main sign of the renewal of society and its great structures. Economically, the crisis developed as soon as in 2008 contradicted many paradigms of liberal and especially neo-liberal thinking and several steps of orientation and political action of a neoclassical-liberal nature. "The global economy lies in ruins. Although unprecedented fiscal and monetary aid prevented the financial collapse in 2008 from triggering complete destruction of the world economy, the global crash of 2008 remains the second largest economic crisis after the Great Depression."(41)

It has now become much more visible that the notions, the concepts of free competition, free market economy, pure and perfect competition, all-comprising market and all-knowing market, perfect market, totally spontaneous economic movement and others of the same arsenal are worthless cognitively and practically, and therefore false, and circulate in the big world as counterfeit coins or other fake things.

Simultaneously, the crisis confirmed a whole range of paradigms from the Keynesist and neokeynesist (postkeynesist) thinking arsenal and practical orientation, considered, until

recently, and in many cases even now, as lacking authentic cognitive and applicative value. And it does not stop here. Why? Because the new economy, being born now, necessarily requires a new economic thinking, as well.

Notes

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- (35) After Op. cit. (34), p.267 (emphasis added by author AN).
- (36) Fernand Braudel, Op. cit., p.267 (emphasis added by author AN).
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 "Disciple of Stephen Stiglitz and one of the most iconoclastic economists of these times, Ha-Joon Chang *removes* some of the *myths* of capitalism and of the world we live in, including the myth of the *free market* or that technology is the way to progress for everyone. One by one, the principles of economic doctrines received for granted are presented in the historical context of formations, before becoming self-evident. Globalization does not make the world richer. Poor countries prove more entrepreneurial spirit than the rich ones. Better paid managers do not get better results. Based on the actual data, this book about money, equality, freedom and greed proves that *free market does not only work against people, but it is also an inefficient way to manage the economy*" (second cover of the book).
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CONTINUING INTERNATIONAL TRADE LIBERALIZATION IN THE FINANCIAL CRISIS CONTEXT

Berinde Mihai

University of Oradea, Economic Sciences Department

Abstract: *This research paper is based on an assessment of the effects of the recent financial crisis on the international trade and the way states and international organizations acted in this context. The importance of this research topic consists in identifying the way the international trade liberalization process has been affected by the financial crisis and the way anti-crisis measures deviated from the basic rules agreed under the aegis of WTO/GATT.*

The intended purpose of the paper is to conduct a substantive assessment of undertaken actions by the various states aimed to mitigate crisis impact on anti-dumping investigations and measures. Precisely, it was assayed whether the international financial crisis has been an opportunity for WTO member states to plainly intervene in the economy and give up the commitments they made in the context of multilateral commercial negotiations. Considering the international, regional and national effects of the crisis the topic has been copiously elaborated on by economics literature. A number of anti-crisis measures were presented encouraging massive intervention in the economy, as well as actions, particularly of International Organizations according to which measures could be taken without deviating from globally agreed mechanisms and principles. In order to be able to find out which of these two options prevailed in actions undertaken by the states the types of international, regional or national anti-crisis measures were selected. Positions voiced by the World Trade Organization, United Nations Conference on Trade and Development (UNCTAD), European Union are rendered.

To answer the question about the way it has been responded in order to mitigate crisis effects, adopted anti-crisis measures were inventoried and their deviation from international rules was assessed.

One of the indicators used in the assessment of anti-crisis measures is the progress of the anti-dumping investigations and measures notified to WTO in the past 9 years for which data were available (2003-2009). The relevance of this period lies in the fact that it includes 5 pre-crisis years and 2 years when it was strongly evident.

It was found that the number of anti-crisis investigations and measures has not seen significant increases during the crisis period. Moreover, it has been found that states have shown a certain amount of flexibility in construing application of certain international principles rather than relinquishing them.

It is thereby demonstrated that the international trade liberalization process continues without major disruptions by the financial crisis. This gives confidence to states and business environment with respect to predictability of international trade developments.

The paper has significant added value brought about by both literature processing and interpretation and the author's experience in international trade negotiations. The very election of the indicator pertaining to anti-dumping investigations and measures was based on the fact that changing trade defence mechanisms into protectionist mechanisms often stands for prevailing immediate crisis resolution.

Keywords: *financial crisis, anti-dumping investigations and measures, trade liberalization, state aid, preferential trade systems*

JEL Classification codes: *F13, F15*

I. Introduction

The topic of this paper is directly related to the financial crisis effects on international trade liberalization. It aims to identify the way anti-crisis measures affected international trade negotiations in view of trade liberalization, successful performance of preferential trade systems, as well as negotiation and implementation of regional integration agreements.

Trade liberalization has seen various approaches. In many instances it has been regarded as detrimental to economic development, protectionist theories attempting to maintain the need to increase borderline protection by various tariff, non-tariff or para-tariff measures resulting in reduced cooperation and isolation of protected economies. In these circumstances, international trade liberalization has been accepted as a solution to encourage economic development.

Right after the Second World War, international trade liberalization panned out and the General Agreement on Tariffs and Trade (GATT) was negotiated in order to serve as a general framework for the liberalization process.

At the time, the matter of creating the World Trade Organization was brought up for discussion as a third pillar of the world economy along with the International Monetary Fund and the International Bank for Reconstruction and Development. Failure to fully understand the liberalization process as well as the absence from negotiations of some important states did not enable creation of this organization. Participating countries did not forsake the idea of creating such an organization and eventually, it was established under the Marrakech Agreement signed upon the finalization of multilateral trade negotiations within Uruguay Round. On this occasion, multilateral agreements were also renegotiated and complemented which allow member states to intervene in parallel with the liberalization process, by trade defence measures, based on well established

internationally agreed rules (agreements concerning anti-dumping measures, compensatory taxes, safeguard measures, and restrictive measures by reason of major imbalances in the balance of payments).

Hence, it ensues that the liberalization process cannot and should not be seen as being apt to exclude its regulation. These are two processes going ahead together and ensure beneficial effects for economic development. International trade liberalization deepened via the multilateral negotiation rounds amongst which Uruguay Round has been the most complex and important.

Another means of trade liberalization consists in the international application of customs preference systems apt to increase commercial competitiveness of products coming from developing countries in the world market. Thus, the General Preference System (GSP) was defined which provides facilities for developing countries in their relations with developed countries. Likewise, developing countries defined the General System of Trade Preferences (GSTP) and the Protocol of 16 (P-16) which should enable trade liberalization among these countries.

Aware of the need to deepen the liberalization process, GATT contracting parties accepting defining in article XXIV of GATT the possibility to negotiate regional integration agreements and requirements they have to meet in order to be internationally recognized. These agreements proliferated over the past decades, while contributing significantly in trade liberalization.

During the period when the financial crisis worsened, a number of protectionist theories emerged aimed at resorting to trade defence measures more frequently. There were other theories which maintained giving up during this period any trade defence measures that might adversely affect international trade. Practice has demonstrated that effects of the financial crisis cannot be stopped by measures which deviate from multilaterally negotiated rules.

II. Literature review

Albeit the crisis was active only three years ago, economics literature attached major importance to this phenomenon given its implications on world economy. In this context papers published under the aegis of OECD, IMF, World Bank and European Commission are relevant. Moreover, the way anti-dumping investigations and measures in international trade were or were not encouraged by the crisis occurrence is tackled in various papers and periodical reports published by WTO/GATT.

Once the crisis has settled into, its effects were analyzed by all international and regional organizations, and by each individual state, as well.

Thus, at international level the three organizations that form the world economy pillars approached the crisis from various perspectives, i.e.

- World Trade Organization (WTO) and UNCTAD focused their efforts on inventorying all anti-crisis measures adopted in the various countries and on assessing crisis impact on the international trade.

- International Monetary Fund (IMF) and World Bank were more interested in the effects of the financial crisis and measures which might be taken in the banking sector in order to straighten out the situation.

At regional level, several „actors” (EU, EFTA, MERCOSUR) were involved in adopting measures seen as required and timely in addressing the problems created by the crisis.

At the same time, states got greater freedom to act, within their competencies, for the adoption of measures which should support national economies. Due to such increased freedom, the risk inherently arised that states invoke the crisis so as to adopt measures that wouldn't have been allowed in normal circumstances due to their categorization as prohibited protectionist measures.

It becomes increasingly obvious that one cannot consider addressing the crisis if

globalization and regionalization elements in the world economy are ignored. An individual solution cannot exist in the context of crisis extension at international level.

III. Research methodology

Research started from the assessment of the way the financial crisis affected the economic sector resulting in: direct investments reduction due to lower profit rates in the circumstances of higher credit costs, shrunk international market due to high commercial credit costs, reduced trade financing possibilities required to guarantee export credits and for measures apt to ensure promotion of exports; potential increased trade defence measures.

The reason of this approach is determined by the wish to find positive responses which, by the various anti-crisis measures, the states gave to the need to mitigate their impact on their economies.

The specific element of the research in this paper consists in assessing the profile of the number of anti-dumping investigations and measures notified by WTO/GATT member states. Thus, a period of 5 pre-crisis years (2003 – 2007) and 2 years of active crisis (2008 – 2009) have been considered. In the absence of final data for the full year 2010, first quarter data have been projected over the whole year so that a complete picture of the crisis effects on trade defence measures should exist.

The relevance of this assessment consists in the fact that it provides a clear picture of the way states acted in the crisis period and of whether they turned anti-dumping measures from the trade defence category into excessive protection ones.

IV. Research results

Based on the two research aspects described in the previous chapter, key results are given below. Hence, in the context of anti-crisis measures the European Union has not deviated from international principles, acting in such a manner that:

a) funds allocated by states for banks and companies should be treated as state aid whom the applicable rules in this area should be applied. However, flexibility is accepted in applying such rules (reduction of state aid authorization period from 90 days to 24 hours; time limited state aids granted by reason of economic crisis, correct sizing of state aids and their periodical monitoring followed by stoppage when crisis factors are no longer active; granted state aids should not deviate from community principles and should be associated with restructuring and viability processes, as well as technology modernization programs).

b) export subsidizing measures should not represent deviations from principles set out within WTO;

c) import surtax introduction or higher customs duties should be linked with WTO accepted circumstances.

It can easily be noticed that these measures do not stand for a deviation from international rules and do not encourage primary protectionism by plain administrative interventions in the economy.

Furthermore, the World Trade Organization sent out several messages concerning anti-crisis measures, such as:

a) the need to inventory all commercial character measures adopted by contracting parties and candidate states;

b) substantiation of anti-crisis measures in consideration of mechanisms and legal instruments agreed multilaterally;

c) avoid that adopted anti-crisis measures should represent more or less disguised forms of increasing protectionism.

These messages are based on the fact that trade liberalization is not the root of problems created by the current crisis but rather a solution for them.

Data processed by the author with respect to anti-dumping investigations and measures revealed the followings:

A. Anti-dumping investigations opened by GATT Contracting Parties:

a) The average annual number of anti-dumping investigations in 2003-2009 is in the range of over 200 cases. Although data are available only for 2010 first quarter, by way of projections one can assume that there will be no significant deviations for this year either. Thence, it has been found that no major changes existed at the level of investigations during the active crisis years against pre-crisis years;

b) Main countries which opened most anti-dumping investigations during the active crisis period were: India (86), Argentina (47), USA (36), EU (34), China (31), Turkey and Pakistan (29);

c) Among countries undergoing anti-dumping investigations in 2008 and 2009 the followings stand out: China (153), USA (22), Thailand (21), Brazil (14) and EU (10);

Sectors undergoing anti-dumping investigations during 2008-2009 were: metals and metal articles (110); petrochemicals (81); textiles and textile articles (59); resins, plastics and rubber materials (52); electrical machinery and equipment (37)

B. With respect to actually adopted anti-dumping measures:

a) The average annual number of adopted measures during 2004-2009 ranges between 138-159 cases.

b) By projecting data available for 6 months in 2010 the number of adopted measures will not be significantly different for 2010;

c) Main countries which adopted anti-dumping measures during 2008-2009 were: India (61), USA (38), Brazil (27), EU (24), Argentina (21), Turkey (20);

d) Among countries undergoing anti-dumping measures during 2009-2009 are: China (108), South Korea (15), Thailand (14), Indonesia (13), USA (12) and India (10);

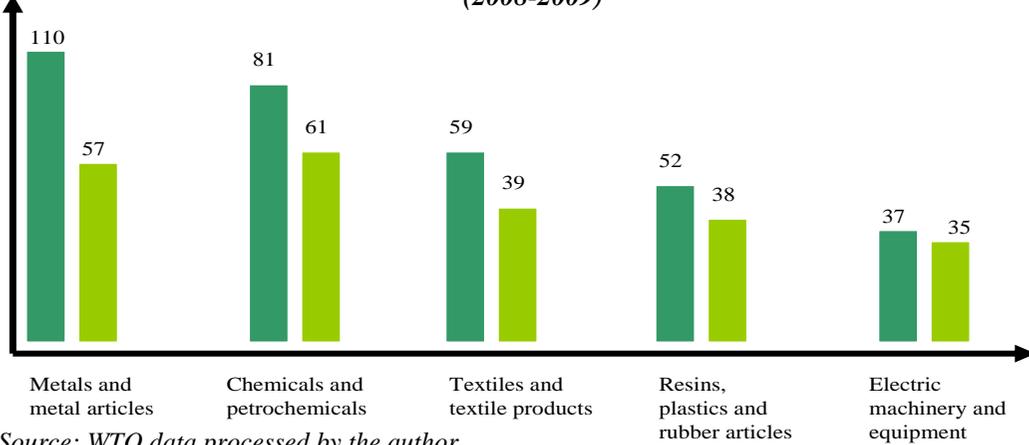
e) Key product groups covered by anti-dumping measures during 2008-2009 were: Chemicals and petrochemicals (61), metals and metal articles (57), textiles and textile products (39), resins, plastics and rubber articles (38), electric machinery and equipment (35).

It is most obvious that during the crisis period we do not see any upsurge in anti-dumping investigations and adopted measures. It was therefore preferred to continue trade liberalization and avoid primary protectionism involving relinquishment of

rules required for the normal development of the liberalization process.

Below is a diagram of the key groups of goods undergoing anti-dumping investigations and measures adopted during 2008-2009:

Diagram 1. Profile of anti-dumping investigations and measures by groups of products (2008-2009)



Source: WTO data processed by the author

Anti-dumping investigations
 Anti-dumping measures

From the diagram above it results that key sectors exposed to both anti-dumping investigations and measures are the same, while the crisis did not have any role in stimulating such measures in other areas than the ones considered as sensitive.

V. Conclusions

Since international trade was no root of the financial crisis but rather a solution to mitigate its impact on world economy, this paper highlights the following factual aspects:
 - trade liberalization in observance of requirements set out in GATT/WTO has not been essentially affected by the crisis. Thus, Uruguay Round resulted objectives have not been jeopardized or abandoned, customs preference systems have not undergone

changes and neither have they been relinquished, while internationally negotiated regional integration agreements continued to exist and operate in normal conditions;

- the international financial crisis has not determined the European Union and the other Contracting Parties to give up their own rules in the matter of state aid but rather a more flexible attitude was noted which resulted in reduced authorization aid request examination periods which were sufficiently important during this period, particularly to the benefit of the banking system. Moreover, objectives and aid granting requirements have not seen any changes determined by the crisis;
- multilaterally set out rules in the matter of anti-dumping investigations and measures

continued to be enforced without easier access of the same, nor turning them into protectionist measures. We do not see any massive increase of cases where it would have been resorted to such investigations nor any dramatic changes concerning affected economic sectors by anti-dumping investigations and measures. It is evident that Contracting Parties took WTO messages into consideration to the effect that in adopting crisis effects containment measures those measures that do not deviate from multilaterally agreed principles and rules should be selected. It is also evident that it has been preferred to continue international trade liberalization and by no means use plain administrative interventions in the economy and excessive primary protection of the same.

- the crisis has not significantly affected products considered as sensitive from the perspective of anti-dumping investigations and measures.

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EUROPEAN AUSTERITY WITHOUT GROWTH? EUROPEAN GROWTH WITHOUT EUROPEAN DEMOCRACY? HOW EUROPEAN CITIZENS CAN REVIVE THE EUROPEAN PROJECT AND DEFEAT EUROSCEPTICISM

Montani Guido

University of Pavia, International Political Economy

The European project is facing a crisis. Citizens no longer understand what the EU is about. Young people and the new ruling class have forgotten the clear message of the European project launched just after the Second World War "No wars ever again among Europeans." The founding fathers of the European Union are mentioned in history textbooks, but today Europe is felt as an irritating bureaucracy. In Europe, peace and economic stability are considered as a natural state, a gift from above. Why keep a useless EU alive?

The state of the European Union is swiftly degenerating. In almost all the member states, the anti-European forces are gaining ground. Populism is not a new ideology and is not necessarily European: let's recall Peronism. In today's Europe populism is the new manifestation of nationalism. In Italy the Lega Nord is in Berlusconi's eurosceptic government. In France, the National Front is endangering UMP's hegemony. In Belgium the rows between the Flemish and the Walloons threatens the state's unity. In the Netherlands, Hungary, the Czech Republic, Austria and Finland, populist forces are either in the government or strongly influencing the government.

National-populism is different from the nationalism of the past. De Gaulle's nationalism was an ideology founded on the "grandeur" of France's history and on a certain idea of Europe, which was "l'Europe de patrie", a kind of European unity accepting French leadership in world politics. Today national-populism is a form of micro-nationalism: it opposes the European project but without having a serious alternative. This is why populism is dangerous. Its real goal is not only the breaking down of the European Union but also the disintegration of the old nation states into micro-ethnic states, as what happened in former Yugoslavia.

European populism and euroscepticism are two faces of the same coin. Democratic pro-European parties cannot fight them successfully in the nation-states. Both are the product of the crisis of the European project. The crisis started at the end of the Cold War, because the European Union leaders failed to exploit the favourable occasion of the enlargement to complete the project of the founding fathers. We can recall a certain number of lost occasions. The Maastricht Treaty was an unsatisfactory compromise: a Monetary Union without an Economic Union and Political Union. The European Convention worked out a Treaty-Constitution without establishing a European government. Moreover it did not change the unanimity rule for the ratification process, even though the principle of the double majority of citizens and states was granted in the constitutional

draft-project. So, when the French and the Dutch rejected the Treaty-Constitution with a referendum, nobody noticed that a "minority" of citizens voted against it, while a "majority" had already approved the Treaty-Constitution. Now we have the Lisbon Treaty, which is considered a substitute of the Treaty-Constitution. Meanwhile the political atmosphere has changed. The old generation of people who experienced the tragedy of the world war is no longer involved. The new ruling class is grappling with new problems: international terrorism, the difficulties concerning the enlargement, immigration, the challenges of global economy, the increasingly difficult Atlantic partnership, the inability of Europe to spur growth.

In this new political environment the European Union is considered as a set of institutions useful for national governments,

but not for a long-term project which is worth achieving, the “first assises de la Fédération Européenne” as was stated in the Schuman Declaration. Moreover, the relative power between France and Germany – the old engine of European unity – has changed dramatically. After the War, France was the only European state capable of taking the initiative to unite Europe and it did. Now, after its national unification, Germany is looking for a new world status, both from the economic and the political point of view, as its ambition to enter the UN Security Council shows. So, slowly but resolutely, the Franco-German engine of European integration has turned into a kind of *directoire*. Since the Lisbon Treaty did not solve the problem of the European government, France and Germany started to talk about the need for “European governance”, which according to Mr. Sarkozy and Mrs Merkel should be nothing but the European Council, where the main decisions concerning foreign policy and finances, are taken unanimously. The outcome of this project is that, when the financial crisis burst, the Franco-German *directoire* took the leadership, imposing intergovernmental solutions, outside the traditional “institutional triangle”: the European Parliament, the Council of Ministers and the Commission. According to the Treaty, these institutions must decide on the basis of the communitarian method: the European Parliament and the Council of Ministers co-legislate and the Commission executes (in such a case the Commission becomes the “government” of the Union). On the contrary, the *directoire* excludes the European Parliament almost completely from the decision-making process.

As far as the financial crisis is concerned, without entering into a pedantic account of the decisions taken, suffice it to say that the problem was thus conceived: how much should the virtuous states of the Union pay in order to avoid the failure of the vicious states, the so-called PIGS? In order to do that, the European Stability Mechanism (ESM) was

established, thanks to a change in the Treaty, so that the finances put in the ESM will always be under the control of national governments. This mechanism, together with the European semester, should increase the respect of the rules of national fiscal policies and guarantee the necessary austerity. It is an improvement of the old Growth and Stability Pact (GSP). But it will also perpetuate conflicts among national governments. On the contrary, a solution in line with the European spirit, not requiring a change in the Treaty, was easily available: it would have sufficed to agree to an increase in the European budget (as much as the ESM) providing new “own resources” to the European Union. The Monetary Union is the institution which provides a crucial European public good: monetary stability. If the Monetary Union is in danger, because of mismanagement in some state, this state should comply with the rules agreed upon, but all European citizens, whatever their nationality, should contribute to rescue of the Monetary Union.

The *directoire* scheme is not only inefficient, since it produces weak and provisional solutions to European problems, but also unstable, because when the economy is concerned, Germany takes the leadership, but when the problem requires a military engagement – as has happened with Qaddafi’s Libya – France takes the leadership; it is undemocratic, because it discriminates small countries and excludes the European Parliament (therefore the citizens) from the decision making process: can European citizens or the European Parliament dismiss the *directoire*?; it is harmful, because it would feed the wrong belief that the EU is only an additional instrument for national governments and that greater political unity is not necessary. To conclude, the intergovernmental method and the will to establish a European *directoire* are the true causes of euroscepticism, the revival of nationalism and the rise of populist movements in Europe.

* * *

In spite of the EU crisis, the European project is not dead. The present ruling class is unable to have a “vision” for the future of the European Union, but luckily the original institutions created by Europe’s fathers are wiser. Jean Monnet said: “the life of the Institutions is longer than the life of men, and for this reason institutions can, if they are well planned, accumulate and hand down wisdom to several generations.” This is the case of the European Parliament, an institution already conceived with the ECSC. After its election by universal suffrage, in 1979, the European Parliament has become the only legitimate institution representing the will of European citizens. In fact, since 1979, on the occasion of every change in the Treaty, the European Parliament was able to increase its power. Now, with the Lisbon Treaty, it also has the constitutional power to start the reform of the Treaty. Some recent events show that the European Parliament feels awkward with the increasing lordliness of national governments. It is worth recalling three recent initiatives.

A group of 97 MEPs, members of the EPP, the Greens, the ALDE, and the S&D, has created the “Spinelli Group” – a network open to contributions of civil society – on the basis of a “Manifesto” which states: “Unfortunately, whereas the formidable challenges of a manifold crisis demand common responses, drawn at least at European level, too many politicians fall tempted to believing in national salvation only. In time of interdependence and a globalised world, clinging to national sovereignties and intergovernmentalism is not only warfare against the European spirit; it is but an addiction to political impotence. ... Nationalism is an ideology of the past. Our goal is a federal and post-national Europe, a Europe of the citizens.” For the time being, the Spinelli Group has organised public debates on the occasion of European Council,

proposing a “Shadow Council” as an alternative to the national governments point of view. Of course, its aim is to gain a wider consensus in the European Parliament and in the public opinion in order to relaunch the institutional reform of the European Union.

The second initiative is the reform of the electoral system for the European Parliament. The Constitutional Commission of the EP has already approved, on April 2011, the proposal of the federalist MEP Andrew Duff, to set aside 25 seats for candidates elected through pan-European lists presented by European political parties, starting with the next elections in 2014. This transnational constituency will oblige European parties to present prominent political personalities, well known all over Europe, and with the chance of becoming President of the European Commission, if he/she is elected and if his/her party or the coalition of parties obtain the majority of voters. Every elector will have two votes: one for the national list and one for the transnational list. According to Duff: “MEPs from all the main party groups have reached a strong consensus on the need to reform Parliament. Under the proposed scheme, the next European elections in 2014 will take on a genuine European dimension. The opportunity of using a second vote for transnational MEPs should galvanise voters who have come to recognise that national political parties no longer work to sustain European integration in an efficient or democratic way.”

The third initiative was taken by three MEPs – Jutta Haug (S&D), Alain Lamassoure (EPP) and Guy Verhofstadt (ALDE) – who launched the proposal “Europe for Growth. For a Radical Change in Financing the EU”. Lamassoure is also the President of the Budget Commission of the EP: this proposal should be considered as the necessary complement to the austerity plan of the Council. If the European economy is not able to grow, to create jobs and to compete in the global market, the austerity plan is certainly doomed to failure. As we have already

noticed, at Maastricht the decision to create an Economic and Monetary Union (EMU) was made, but the reality is that only the M leg of the plan was built, the E leg was forgotten. Today we have one European currency for 17 member states, but 17 national financial policies. This asymmetric economic governance does not work, as the crisis of the sovereign debts has shown. The problem is: is an autonomous financial policy for the EU possible? In fact, the EU has its own budget, but its size is only of 1% of GDP and a great part of it is devoted to agricultural policy; moreover it is practically financed by national resources only. The result is that each state requires the “net return” from its payments to the EU, so that at the end of worn out debates among national ministers the European budget becomes an external support to national budgets. The crucial role of the European budget, which should be to provide European public goods, which are not feasible at a national level, is completely denied.

“Europe for Growth” proposes two ambitious goals. The first is to end the system of national contributions, going back to the original idea of genuine European resources. The present budget of the EU can be totally financed by 1% of VAT, a carbon tax and, if necessary, by a financial transaction tax. The second goal is a public investment plan, financed entirely by Project Bonds issued by the EIB. The main reason for such a plan is that “in the last three decades the public investment ratio in the eurozone has declined by more than 1% of GDP. This trend has contributed significantly to making the eurozone a low-growth area. This trend should be reversed. This can be done by a new programme of project bond issues aimed at raising the public investment ratio in the eurozone by 1% of GDP. Since the eurozone GDP amounts to approximately €10 trillion, this means that the new yearly Euro project bond issue of €100 billion aimed at financing public investments should be undertaken.”

One should notice that the size of this plan is three times the Delors Plan of 1993.

The three initiatives are crucial to change the outcome and the meaning of the next European elections in 2014. Since 1979 the turnout has continuously declined from one election to the other. The explanation is simple. Since there is not a clear European policy at stake and there is not a European government the citizens can choose, the European elections turn out to be a summation of national elections. The European Parliament is not considered a crucial institution for the future of the European citizens and, in effect, the European Council, i.e. national governments, takes the main decisions. But, if the citizens can choose, in the European constituency, a European leader who can also become President of the European Commission, and if the main European parties include a Plan for European growth, more public investments and more jobs in their programme, citizens could find a real interest in participating in the European elections. In such a case the newly elected European Parliament must keep the commitment made before the electors. A growth policy cannot be carried out without the active support of the citizens, civil society organisations, political parties and trade unions; in short, a European growth policy is impossible without European democracy.

* * *

The participation of citizens in the European project cannot be limited to European elections. In a democratic community citizens debate public issues daily and either support or blame their political parties and their government. But do a European public space and a European people exist? The fact that eurosceptics were of the opinion that a European public space and a European *demos* did not exist significantly affected the debate on the European Constitution. Now, the Lisbon Treaty offers the opportunity to

overcome that criticism. One million citizens can take the initiative in inviting the European Commission “to submit any appropriate proposal on matters where citizens consider that a legal act of the Union is required.” Of course, also eurosceptic forces can exploit the European Citizens’ Initiative (ECI). Indeed every ECI will spur useful public debates in the EU and provoke a reply from political parties and European institutions. In any case, the ECI can be exploited for fostering European political unity. For instance, an ECI could invite the Commission to provide all the legal acts necessary to implement the proposal of “Europe for Growth.” This initiative can be supported not only by the main European parties, but also by trade unions, European

business associations, local governments, civil society organisations and countless citizens.

In 1989, many citizens gathered together in the squares of Eastern European countries to claim democratic regimes. Today, Arabian citizens are protesting and fighting against their dictators. Every people should find their way and their means to affirm or to put forward more democracy. In the EU there is no dictator to be fought. The enemy of European democracy is intergovernmentalism with its ideological base: euroscepticism. If the proposed ECI is successful, eurosceptics will stop talking about the non-existence of a European *demos* and the way for transforming the EU into a true supranational democracy will be open.

ACCOUNTING FOR SUSTAINABILITY: WHAT NEXT? A RESEARCH AGENDA

Cunningham M. Gary

Jönköping International Business School Jönköping, Sweden

Arne Fagerström

Jönköping International Business School Jönköping Sweden

Lars G. Hassel

Åbo Akademi University Åbo, Finland

Abstract: *This working paper responds to increasing calls for more and different forms of accounting research involvement in accounting for sustainability. It seeks to provide background, clarify the accounting research issues, and suggest research methods. The background analysis indicates that accounting for sustainability must go beyond supplemental reporting of ecological and social information to include such emerging issues as integrated reporting of sustainability information along with financial reporting. Additional emerging issues are needs of users of sustainability reports, auditing and other assurance of sustainability information, and sustainability implications of financial failure, accounting and auditing failures, and lack of enforcement. Analysis of integrated reporting against traditional financial accounting theory concepts of the purpose of financial reporting and the postulates of going concern, reporting entity, monetary unit, and time period, indicates a need for substantial changes in the traditional financial accounting model if sustainability issues are to be integrated. The agenda concludes with five research issues and methods:*

- *An accounting research framework for sustainability using general systems theory approaches that have been useful for similar emerging issues.*
- *Reporting of sustainability information which has been the focus of most research to date, and the emerging important topic of integrated reporting.*
- *Users of sustainable information, their uses and perceived needs, an area that has been largely neglected in research to date.*
- *Auditing and assurance issues that are taking on greater importance as more users demand assurance for sustainability information. Issues include standards to be used and users' expectations and reactions.*
- *Financial distress and sustainability consequences of accounting and enforcement failures that are just now being recognized as sustainability issues.*

Keywords: *accounting for sustainability, integrated reporting, needs of users, audit, assurance*

JEL codes: *M41, O16, M42*

1. Introduction

In recent months, calls for more accounting involvement in sustainability issues have become stronger, more frequent, and more urgent. As discussed below, though, there is no common notion of sustainability, especially in an accounting context. For this research agenda, we tentatively, as a starting point, draw upon the classic economist Sir John Hicks who developed the concept of consumption being what would leave a

person as well off at the end of the period as at the beginning of the period. Our working notion of sustainability is that a sustainable entity is one that is as well off at the end of a period as at the beginning with respect to use of all resources: e.g. environmental, human, ecological, social, financial, and technological.

Much of the previous research has used the definition of sustainability developed by Buntland (1987) over 25 years ago for the

World Commission of Environment and Development of the United Nations. Buntland's definition focuses on sustainable development ensuring that it meets current needs without sacrificing needs of future generations (quoted and cited by Kasperiet, 2011). Buntland's definition while innovative and ground-breaking for the time, can be seen as somewhat obsolete for the current era of research into accounting for sustainability. Among other things, it focuses on external sustainability, i.e. sustainability of ecological and social systems, while the current focus of research into accounting for sustainability is on sustainability of an entity, usually sustainability. As the research agenda progresses, especially with the development of a research framework, a more comprehensive definition of sustainability is expected.

Despite no common notion, the terms "sustainability" and "accountability", usually in environmental and social contexts, are being used widely. New journals are being launched to publish research exclusively or primarily on accounting for sustainability, e.g. *Social and Environmental Accountability Journal* and *Sustainability Accounting, Management, and Policy Journal*. A recent major international academic accounting conference of the International Association for Accounting Education & Research (IAAER) held in Singapore in November, 2010, featured panel discussions of practitioners and academics that called clearly for more involvement of academics to do research in accounting for sustainability, notably in auditing, but also in other accounting roles. At another recent international academic accounting conference, Asian Pacific Conference on International Accounting Issues held in Australia in November 2010, a speaker from a governmental pension fund agency in Australia was somewhat critical of academic accountants' lack of involvement in accounting for sustainability; she indicated that if the academic accountants did not get

more involved soon, some other groups would.

Thomas L. Friedman, a *New York Times* columnist and award-winning author, in his recent book on sustainability, *Hot Flat and Crowded*, Release 2.0 (2009), has explicitly used accounting terminology (discussed in more detail below) to describe inadequacies of current accounting practice for sustainability. Major international business-oriented newspapers write about essentially the same issues. Dedicated research in sustainable investing has been ongoing for some five years. Notably, the Sustainability Investment Research Platform (SIRP) (www.sirp.se) in Sweden has been a world leader in such research. It is now recognized by SIRP and others that accounting for sustainability is the ongoing next major research area.

The Principles of Responsible Investment (PRI) Academic Network of the UN (<http://academic.unpri.org/>), among other things, publishes the RI Digest of academic research articles in sustainability. Increasingly, the RI digest has been reviewing accounting research articles, notably about disclosures, e.g. Solomon and Solomon, (2006), reported and reviewed in December 2010. The Centre for Social and Environmental Accounting Research, Accountability, Transparency, Sustainability (CSEAR) (<http://www.st-andrews.ac.uk/~csearweb/>) has been created at the University of St. Andrews in the UK to provide information resources, sponsor workshops, and other activities to help researchers and scholars exploring social, environmental, and sustainability accounting, auditing and reporting and related topics.

In the immediate Middle Eastern revolutionary activity, the terms "sustainable", "accountability", "transparency", and the like are being spoken casually and loosely. The Kuwait Fund in its paid advertisements touts investments in sustainable ventures. News commentators talk about sustainable regimes as opposed to

stable regimes. Opposition protestors demand transparency and accountability. It is obviously *much* too soon to develop research implications for accounting for sustainability for these activities. Nonetheless, the increasing use of the jargon of accounting for sustainability cannot be ignored.

One of the major issues in accounting for sustainability it is the lack of a common notion of accounting roles in sustainability, nor even what constitutes sustainability in an accounting context. The various notions of sustainability and accounting for sustainability, while not conflicting, and indeed complementary, reflect a need for a more detailed accounting research agenda to identify research issues, establish more precise concepts, definitions, and notions to provide near-term future directions. This paper and the agenda it presents are intended to represent a first step in that direction by giving structure to identifying and discussing specific groups of research issues for accounting for sustainability, along with possible methodologies and data sources. The remainder of this paper is organized as follows:

Section 2 presents background information underlying the groups of research issues that are identified.

Section 3 analyzes issues in accounting for sustainability with respect to traditional accounting practice, notably the four postulates of accounting.

Section 4 Presents specific research issue along with research methods and sources. Some of these issues are better developed than others.

Section 5 gives a concluding discussion including identifying contributions of the research.

2.0. Background

During the past few years, many accounting academics, and indeed many accounting practitioners, have viewed sustainability almost exclusively as representing

environmental, i.e. ecological, and sometimes social issues, and sustainability reporting as telling how 'green' and socially responsible a company has been. This view of sustainability reflects a common view developed over 25 years ago by the Brundtland commission of the United Nations (UN) that sustainability is meeting needs of current generations without sacrificing future generations' needs (Brundtland 1987). A large number of academic publications reflects this view (e.g. Adams 2010, Gray 2010, and sources cited by them). Panelists at the IAAER conference (2010), however, were clear that current approaches to sustainability reporting are too narrow and inadequate for many reasons; especially the notion of accounting for sustainability is much broader than mere environmental (ecological) and social reporting and the role of accounting involvement must be much broader to include such activities as risk assessment and providing assurance including auditing.

It is now widely recognized, but not well documented in academic publications, that sustainability goes beyond mere environmental (ecological) and social issues, and includes sustainability of an enterprise as a business involving production, sales, and marketing, as well as being sustainable financially, legally, and in other similar ways. Poor environmental (ecological) and social performance can indeed lead to unsustainable business activity as evidenced by such phenomena as consumer boycotts of some large retail enterprises that were viewed as selling products made by suppliers using child labor and other socially and environmentally unacceptable practices. Users of financial information consistently indicate a desire to have more information to allow them to assess sustainability and risk related to sustainability. Thomas L. Friedman (2009), the award winning author mentioned in the introduction, links both financial sustainability in the recent financial crisis and environmental sustainability as being part of the same phenomenon: inadequate accounting

that does not adequately consider risk: If the true risks involved in these subprime mortgages or default insurance had been priced into these products, they would never have been rated the way they were. Investors would have been much more wary and demanded much higher yields before buying them, which would have forced the mortgage brokers to be more careful in deciding to whom to give these mortgages and the banks to be more careful in choosing which ones to bundle. (Friedman 2009, pg. 15).

While pricing of products might be viewed as a marketing issue, under IFRS and accounting standards of most industrialized countries, valuation of the cost of the products sold and the inventory of buyers would require an adequate risk assessment to measure amounts in financial statements of both sellers and buyers. Furthermore, the principle of going concern applies to all valuations in financial statements and underpricing of financial risk raises serious issues of going concern. The going concern principle is essentially the same as sustainability when making financial accounting valuations. (Going concern issues are discussed in more detail shortly.) As a result, sustainability failures in the recent financial crisis related to inadequate pricing of risk in products are indeed issues of accounting for sustainability. Then, when writing about environmental issues discussing a 2005 report of the Millennium Ecosystem Assessment of the United Nations, Friedman comments:

Yet because most nations do not put a price on [the natural resources consumed] they too are ‘underpriced’ and therefore overexploited—with the profits privatized and the losses socialized. (Friedman 2009 pg. 25)

Then quoting the World Wild Life Fund’s Living Planet 2008 Report:

‘The world is currently struggling with the consequences of over-valuing its financial assets, but a more fundamental crisis looms ahead—an ecological credit crunch caused by undervaluing the environmental assets that

are the basis of all life and prosperity.’ (Friedman 2009 pg. 25).

Under current accounting standards, the value of ecological resources used would not normally be used to measure product prices or report values in financial reports; thus Friedman seems to advocate a new accounting paradigm for accounting for sustainability that incorporates use of environmental and social resources in accounting measurements. In both of these situations, as well as throughout the book, Friedman, a well read, literate, and articulate writer, but a non-accountant, uses accounting terminology to link both financial and ecological sustainability failures and attribute the cause of both to the same phenomenon, underpricing of assets and products sold due to failure to consider sustainability risk. Similar calls for a new accounting model to incorporate external costs have been made by others, e.g. the Accounting for Sustainability Group (2006) and Epstein (2008).

Recent attention to so-called integrated reporting has come from the Accounting for Sustainability Project

(www.accountingforsustainability.org)

among other places. As discussed in more detail shortly, this project includes initiatives of the International Integrated Reporting Committee (IIRC)

(<http://www.integratedreporting.org/>) to develop a new reporting model that will better reflect the interconnected impact of financial, environmental, social and governance factors. There is, however, no common notion of what constitutes integrated reporting. Many believe that ‘integrated’ is merely including environmental and social information along with financial information, while others view ‘integrated’ as incorporating sustainability factors within accounting measurements.

3.0. Accounting for sustainability with Respect to Traditional Accounting

When environmental (ecological), social, and other social issues reporting are viewed from

the perspective of accounting for sustainability, many issues emerge that have not yet been addressed and now need to be examined from the perspective of traditional accounting and financial reporting practice.

3.1. Integrated reporting

The recent call for integrated reporting involves reporting sustainability issues in parallel with financial reports, incorporating sustainability issues in accounting measurements in financial reports, or both. Many inconsistencies arise, though, that have not been considered and should be analyzed along with respect to traditional financial reporting theory and concepts. Among the inconsistencies that arise, in Anglo-Saxon countries, the purpose of financial reporting is expressed as assessing the likelihood and timing of future cash flows, thus implying that accounting measurements should be ultimately related to cash flow. The theory adds, though, that future cash flows are best assessed by accrual accounting. Many of the suggestions about including sustainability into accounting measurements would not involve direct future cash flows, such as use of environmental resources, unless for circumstances when a carbon tax or carbon permits might be assessed. Therefore, it would be very difficult to include such measurements without changing a major aspect of traditional financial reporting theory that exists in most countries. Also, the conceptual framework of the IFRS, US GAAP, and similar concepts of accounting principles in many countries contain the following four fundamental postulates, although these concepts predate both IFRS and the US GAAP conceptual frameworks, and terminology varies.

- Going concern
- Reporting entity
- Monetary unit
- Time period

The **going concern** concept assumes that an entity will be in business for the foreseeable future and will be able to realize its assets and

complete its obligations. This concept affects valuation bases for measurements of many items on financial reports. It is also the basis for auditors' reports on financial statements. Sustainability is essentially the same concept as going concern because lack of sustainability implies lack of a going concern, and a sustainable entity must necessarily be a going concern. As discussed in more detail shortly, well-known going-concern failures such as Enron and sub-prime mortgage collapses have resulted massive social costs and clearly represent lack of sustainability.

The **reporting entity** concept defines the entity for which financial reports are prepared. Traditionally, financial reports are prepared for an economic entity, usually defined in legal terms as being a consolidated group in which one dominant entity controls of the group. With integrated financial reporting, the appropriate reporting entity for sustainability reporting may differ considerably from the reporting entity for financial reporting purposes. As two examples: First, recent publicity about retail companies that sell clothes made by child labor, and similar situations in other industries, indicate that transparent and informative reporting should include the entire supply chain in an entity's sustainability reporting. Second, as has been discussed recently, the environmental impact of a company's products is also a significant element to be considered in assessing a company's sustainability so the reporting entity for integrated reporting might consider customers or other users of a company's products.

Traditional financial reporting is based on **monetary units** in which all non-monetary items are reported as an equivalent monetary amount. Almost all environmental and social information in reports to date are in narrative non-monetary terms. Under some notions of integrated reporting, environmental and social information would be incorporated into accounting measurements. Also as discussed above, Friedman (2009) and others imply a

new accounting in which environmental risk, which included financial risk, is incorporated into product pricing. Under the costs attach principle of traditional financial accounting, costs are included in product prices and similar measurements if there is a payment (or similar actual use of resources owned); there has been no measurement method to incorporate use of “free” environmental resources nor potentially damaging environmental resources through emissions of such things as carbon dioxide and other greenhouse gases. Carbon trading schemes are in their earliest stages of development in Europe and some other places, but so far no accounting measurement has been proposed to include the cost of carbon emission purchases into products and similar accounting measurements. Figge and Hahn (2004) in their Advance project have developed the Advance Model (see also <http://advance-project.org>) in which, among other things, sustainable value added is computed in monetary terms for various types of emissions. These sustainable values, though, are not incorporated into accounting measurements, but could conceivably be reported in integrated reports. Sustainable values as now computed are more suitable for management control and management accounting purposes.

Under the **time period** concept, traditional financial reporting is based on specific time periods, almost always one year, based on perceived users’ needs for timely information covering discreet time periods of optimal length to make meaningful decisions. Two approaches have traditionally been used although with variations among countries: First the revenue-expense approach measures revenues earned during a year to derive a profit for the year; assets and liabilities are residuals. Second, the asset-liability approach measures assets and liabilities at the end and the beginning and of a year, subtracting the difference as profit for the year divided into revenues and expenses. The asset-liability approach has been adopted by IFRS and US

GAAP, but the revenue-expense approach remains in some countries, notably Finland. The asset-liability approach is clearly more compatible with sustainability accounting as indicated in the introduction because it focuses on consumption of resources that would leave a company as sustainable at the beginning as at the end. Nonetheless, both approaches are problematic for integrated reporting because of the rigid notion of financial reporting that occurs in annual increments. Many issues of sustainability relate to long term consequences for the environment, for example from past environmental damage as in the oil fields of Nigeria and coal mining regions of the U.S, and damage from emissions over the life cycle of products like automobiles.

3.2. Auditing and other assurance

The panel discussion at the IAAER conference (November 2010) clearly contained a call for accounting researchers to be involved in additional roles in accounting for sustainability, notably auditing. Users of financial information, notably investors, it is claimed, need, almost demand, increasing levels of assurance on sustainability information, notably assurance of information in management commentaries and environmental reports. The anecdotal statements claim that investors require such assurance in order to make proper risk assessments of sustainability, especially because of documented false environmental statements presented in annual reports. In the Massey Coal case in the US, as part of a legal settlement, Massey agreed to provide audited statements of workplace safety and protections of the environment (Harris 2011). The call for more auditor assurance of environmental reports is also reflected in personal interviews with international accounting firms. Some countries, e.g. Sweden, allow auditors to offer both positive and negative assurance on environmental reports, i.e. positive assurance in which auditors examine evidence as in a financial

audit and give a professional opinion about its reliability, and negative assurance in which the auditor states there is no reason to suspect the information is not reliable. Companies choose to provide environmental and social information, it is claimed, to obtain reputational benefits not necessarily related to risk. Assurance, if any, would be used to achieve greater reputational benefits; few companies are willing to pay for positive assurance because of limited perceived benefits.

Calls for greater assurance of sustainability information, however defined, are based on anecdotes, assertion, conjecture, etc. It seems fairly certain, though, that interests of investors and creditors in assessing sustainability risk in making decisions have been largely ignored and are just now being realized. As a result there is a current need for accounting research to assess investors' and creditors' perceived needs for assured sustainability information, how they use it, market reaction to the information, etc.

3.3. Financial failures, Reporting and Auditing failures, and Enforcement

Yet another set of accounting-for-sustainability situations within the past few years are the well-known financial sustainability failures and near failures of companies like Enron, WorldCom, Parmalat, and Ahold and financial institution failures in due to sub-prime mortgages. These financial sustainability failures resulted not only in investor and creditor losses but also massive losses for society and are clearly social and environmental sustainability issues as well. The sustainability failures were directly related to non-compliance with accounting standards, audit failures, and enforcement failures. In addition, the going concern concept implies financial sustainability and these organizations clearly were not going concerns. While there have been extensive research and publication about the high-profile cases, little research has been conducted in the context of accounting for

sustainability. Research has shown, however, continued lack of compliance with accounting standards and apparent lack of enforcement, especially in Europe (e.g. Carrara et al. 2010; Fagerström et al. 2009, 2007a, 2007b). It is also recognized that lack of adequate enforcement of accounting standards within in the EU is contributing to lack of reliability of published accounting reports and thus the ability of users of financial reports to assess sustainability risks. As widely reported in the business media, in October 2010, the European Commission announced its intention to examine compliance with accounting standards, the role of auditors, and enforcement. It is too soon to assess the consequences of this action by the European Commission, but it is clearly an issue within accounting for sustainability.

4. Research Issues

With the analysis above of accounting for sustainability in the context of traditional accounting theory and practice, and recent events, this agenda now develops some specific research issues along with research methods and data sources.

4.1. A Research Framework for Accounting for Sustainability

A conceptual framework to guide researchers and practitioners in accounting for sustainability is an essential first step in this research agenda because of various notions of sustainability and the roles of accounting in accounting for sustainability that exist at the moment, and lack of a common language. Such frameworks have been successful in guiding emerging areas of accounting research in the past. In the 1970s, as the phenomena of multinational companies became sufficiently large to warrant ongoing accounting research, a seminal study, *An Accounting Research Framework for Multinational Enterprises* (Cunningham 1978) facilitated accounting research for multinational enterprises for coming decades. A similar but less elaborate framework also

facilitated research into accounting research for performance reporting and accountability in governmental entities (Cunningham and Harris 2005) when this issue emerged as an issue for accounting research. Such a framework in accounting for sustainability would, among other things, identify, explore, and analyze systematically:

- Various notions of sustainability to assess which ones represent roles for accounting, and to what extent.

- Groups and individuals who have or potentially could have an involvement in accounting for sustainability, including Assistant Lecturers of reports; users of such information, e.g. banks and investment analysts; assurers of such information, i.e. auditors or similar groups; regulators; other organizations, e.g. the United Nations and its PRI academic network, who have taken a direct interest and action in the issue; and policy makers such as the European Commission.

- Different forms and levels of accountability, e.g. financial reporting and assurance thereof; integrated reporting of financial and other sustainability accounting information; reporting sustainability information outside the financial reports and assurance thereof; incorporating sustainability risk and use of resources in accounting measurements; other elements of accountability for sustainability risks; managerial accounting; management control systems; etc.

- Identifying and describing various notions of a sustainable entity that would be the object of accountability.

- Matching the interests of groups and individuals with regard to sustainability with different forms and levels of accountability.

- Developing a common language to discuss and guide future research.

Similar to *An Accounting Research Framework for Multinational Enterprises* (Cunningham 1978, pg. 1), this research framework seeks to facilitate continuing research in accounting for sustainability by describing in detail gaps in current knowledge, specific issues that require research, factors that should be considered when conducting the research, and suggesting research approaches. One important aspect is to identify failures in past research and means to overcome the failures. It also provides a common taxonomy and language for continuing research. Following Cunningham (1976, pp. 31-61) and sources cited by him, this part of the research agenda uses a general systems theory approach as the primary methodological and analytical tool (described in more detail shortly). General systems theory is especially well suited to develop conceptual frameworks in business contexts and especially for accounting research because it allows researchers to explore such relevant aspects as:

- The scope of the agenda and which systems are included in this scope.

- System boundaries, i.e. what is included in a system and what remains outside in the environment. **It is important to note (as discussed below) that the word “environment” has a different meaning than is commonly used in the literature on accounting for sustainability so far.** For this framework, boundary considerations are important for such issues as defining sustainability in accounting contexts; what is inside systems of accounting for sustainability, and what remains outside in the environment; and whether sustainability reporting and financial reporting are separate systems or can become integrated into a single reporting system.

- System regulation and control. For this framework, regulation and control factors deal not only with such obvious issues as standards and enforcement, but also what

type of outputs from accounting for sustainability are to be produced and for whom.

4.1.1. Methodology

This part of the research agenda uses the general systems methodology discussed in Cunningham (1978 Chapter two). General systems theory is not a theory per se but instead an approach to guide analysis and development of more specific research approaches. It is also a first step in grounded theory approaches which represent back and forth analyses of a system and its environment to build a theory.

-Under general systems theory, each system is viewed as part of a larger system and each system can be viewed as having one or more subsystems. The issue is to identify the system of interest for the research issue at hand, and the boundaries of that system. Thus, the system of interest can be defined in different ways for different research purposes. As discussed above, from a sustainability perspective, the system of interest can include a company and its supply chain as well as users of its products during the product life cycle. In defining the boundary of the system of interest, everything that remains outside the boundary is considered to be the environment. **As noted above, this definition of “environment” is different from the term “environment” used in the research literature to date which typically views environment as representing ecological resources.** Among other things, the analysis considers properties of the system of interest, properties of subsystems, and properties of the environment, including influences of each on the other.

Other important aspects of general systems theory are the notions of regulation and control. Control is generally defined as setting expectations, monitoring outcomes against those expectations, and taking actions if necessary to make necessary changes to achieve desired outcomes. Thus control

typically occurs outside a system in the environment, depending on how the boundary between a system and its environment is defined. Regulation represents activities and subsystems designed within a system to achieve the desired outcomes somewhat automatically without explicit intervention. Notions of what constitutes regulation and control differ depending on how the system of interest and the environment is defined. The concepts of regulation and control have obvious implications for accounting for sustainability. One example is establishing standards for sustainability reporting, a control function, and the steps taken by an entity to assure compliance with standards.

4.2. Reporting Sustainability Information

In some countries, e.g. Sweden, a form of integrated reporting is required for certain companies, e.g. those with state ownership, following the triple bottom line of the Global Reporting Initiative (GRI) (www.globalreporting.org/Home).

In addition, several other companies have been voluntarily reporting environmental and social information for some years. Recent attention to so-called integrated reporting has come from the Accounting for Sustainability Project

(www.accountingforsustainability.org). This project includes initiatives of the International Integrated Reporting Committee (IIRC)

(<http://www.integratedreporting.org/>) to develop a new reporting model that will better reflect the interconnected impact of financial, environmental, social and governance factors. The IIRC includes, among others, representatives from the major international accounting firms, securities exchanges, the Financial Accounting Standards Board (FASB) of the US, and the International Accounting Standards Board (IASB). As mentioned above, though, there is, however, no common notion of what constitutes integrated reporting.

Also as mentioned above, anecdotally, companies report such so-called sustainability

information and sometimes seek assurance of such to achieve reputational benefits. Research is needed to identify what type of reputational benefits companies expect to achieve. A further issue is establishing standards for sustainability reporting. The Global Reporting Initiative (GRI) (www.globalreporting.org/Home), a network-based organization based in the Netherlands, provides standards for voluntary reporting of supplemental sustainability disclosures. GRI reporting standards are required in Sweden for the companies that are required to report the so-called triple bottom line. The IIRC as part of the UN PRI is also establishing reporting standards. Research could be useful to determine the criteria by which companies, accounting firms and others choose reporting standards.

4.2.1. Research Methods

The primary research methods for this set of issues would be content analysis and field studies. With respect to content analysis, because of different notions of what represents integrated reporting, it would be useful to examine actual reports under the different approaches to learn differences and their impacts. Content analysis might also be used to examine reports of different companies that use different types of reporting standards to assess different impacts. A further analysis of the groups promulgating the standards to determine their intentions and desired results can be useful. Such content analyses can be complimented by field studies of the companies that currently report sustainability information to determine the difficulty or ease of implementation and extent of compliance. Field studies represent a form of grounded theory in which researchers engage with the field to discover phenomena of interest to be used to develop a theory. Field studies by Fagerström et al. (2009, 2007a, 2007b) have examined similar issues in implementation and compliance with reporting standards and provide a model for this research agenda.

Field studies can be useful to assess the reputational benefits companies attempt to achieve from reporting environmental and social information. Field study research by Cunningham and Harris (2005) on a similar topic about performance reporting of governmental entities was a significant contribution to accountability research for such entities and can also be used as a model in this research.

4.3. Users of Sustainability Information.

As mentioned in the background, research and discussion in accounting for sustainability so far have almost exclusively focused on companies that prepare and present sustainability information. There is very recent recognition that the needs of users of the information must be considered as well. The research framework for accounting for sustainability as described in 4.1 would necessarily address some of these issues. Research is also needed to address directly users' perceived needs and reactions to them. Anecdotal evidence suggests that financial analysts, one major user group, routinely discard supplemental environmental disclosures. Instead, anecdotally, analysts want information that allows assessment of risk. Somewhat contradictory prior research has shown that financial analysts, do consider sustainability risk information when making recommendations to their clients (H. Nilsson, et al. 2008). Other research reported by the SIRP (www.sirp.se) indicates a market reaction to sustainability risk under certain situations thus suggesting that some users of sustainability information do use such information. Research is needed not only to assess whether sustainability risk information is desired and used, but the form in which sustainability risk incorporated in accounting reports, e.g. in integrated reports, in product prices according to as suggested by Friedman (2009), and in other accounting measurements.

4.3.1. Research methods

Field study research methods similar to those discussed above (Fagerström et al. 2009, 2007a, 2007b) are useful to learn more about potential users of integrated reports, what they expect, different formats they prefer, and similar items. The primary research method for this issue could be experimental research along the lines used by Baker and Cunningham (1993) when assessing the perceptions of bankers about different sets of assurance standards on their loan decisions is a model for this analysis. With respect to experiments, persons in each treatment group would be *a priori* viewed as essentially identical and making the same types of decisions following the approach of Cunningham and Baker (1992). In their study, subjects of experiments were attending training and education classes sponsored by a professional bankers' association; the association supported the type of research and virtually all participants voluntarily chose to participate. The subjects for this and similar issues in this research agenda could be similar, not necessarily in educational classes, but groups of professionals who use reports of sustainability information. In addition, or alternatively, students could be used as surrogates for users of sustainability accounting information. Numerous accounting-related experiments using students as surrogates have been conducted and published by Michael Shields and Graeme Harrison, among others; these studies are too numerous to cite here, but can be readily located and examined. Similarly, experimental studies in sustainability under the auspices of the SIRP (www.sirp.se) have used students as surrogates for professionals who use sustainability information. These studies cite evidence that students perform as well as actual subjects in these types of experiments.

4.4. Auditing and Other Assurance of Sustainability Information

As mentioned in the introduction, background, and discussions above, a major emerging issue is the extent to which users of sustainability information expect assurance; at what level, negative or positive; and in what form, supplemental or incorporated in financial measurements. A further issue within this agenda issue is establishing both standards for sustainability reporting and standards against which assurance is given. As mentioned above, the Global Reporting Initiative (GRI), a network-based organization based in the Netherlands, provides standards for voluntary reporting of supplemental sustainability disclosures. The IIRC as part of the UN PRI is also establishing reporting standards. For assurance, as one example, major accounting firms in Sweden use assurance standards published by Föreningen Auktoriserade Revisorer (FAR) (www.far.se) in FAR RevR6

(http://www.far.se/pls/portal/docs/PAGE/FAR_2010/FAR_TYCKER/INFORMATIONSMATERIAL/GRANSKNINGAVHALLBARHETSREDOVISNING.PDF), although use of such standards is apparently voluntary. FAR RevR6 is taken from (essentially a translation of) the International Standard on Assurance Engagements 3000 (ISAE 3000)

(http://www.accountability21.net/uploadedFiles/Issues/ISAE_3000.pdf) developed in the Netherlands. A competing set of assurance standards, though, has been developed by AccountAbility

(<http://www.accountability.org/>) in its AA1000 AS. Despite the organization's claim of wide-spread acceptance, there is no indication that such standards are used in Nordic countries. Yet another set of standards is incorporated in the Greenhouse Gas Protocol Initiative

(<http://www.ghgprotocol.org/>).

These sets of assurance standards, while not always in direct competition because they relate to different types of sustainability

information, overlap sufficiently to create uncertainty and complexity in accountants' roles of providing assurance. Because of multiple sets of standards for both reporting and assurance, yet another set of issues to be addressed in this research agenda is the criteria by which companies and organizations providing assurance voluntarily choose standards to use in reporting and in assurance engagements. When sustainability information is included in accounting measurements, e.g. pricing products to include external resource costs and including sustainability risk in financial products, additional issues of reporting standards and assurance standards are presented. Similar issues are presented in integrated reporting when environmental and social concerns would be included in accounting measurements. Current accounting standards in almost every country, including Nordic countries, do not permit such accounting measurements; likewise auditing standards for such measurements are not available.

4.4.1. Research Methods

The previous research by Baker and Cunningham (1993) discussed above, is an ideal model for the type of research on assurance levels in this research agenda. In that experiment, bank loan officers were asked to make decisions based on financial statements prepared using, among other things, different levels of audit assurance and different accounting standards. Field studies like Fagerström et al. (2009, 2007a, 2007b) and Cunningham and Harris (2005) are a grounded theory approach useful models to examine auditors' perceptions of different levels of assurance and standards.

4.5. Financial Distress, Non-compliance with Financial Reporting Standards, and Lack of Enforcement

Despite the fact that past financial failures, notably Enron and sub-prime mortgage crises, have resulted in massive social costs, there is only recent recognition that financial

distress, often related to failure to consider different types of sustainability risk, non-compliance with financial reporting standards, and enforcement of accounting standards, is an issue of accounting for sustainability. As discussed in the introduction and background, though, Friedman (2009) views ecological risk and financial distress to be integrally related through inadequate accounting for risks. Even though financial and other sustainability risks are recently receiving attention, the going concern concept has been an essential concept in financial reporting and auditing for many years. Research would be useful to assess the extent to which users of financial information, notably banks, investment analysts, and financial analysts, view the link between financial distress risk and ecological risk as being integrally related as does Friedman (2009).

Non-compliance with financial reporting standards has been an accounting research topic for at least the last 10 years in which wide-spread non-compliance was discovered, and by implication apparent lack of enforcement (e.g. Carrara, et al. 2010, Fagerström et al. 2009, 2007a, 2007b; and sources cited by them). Such research, though, focused on detecting non-compliance without implications for sustainability. As indicated in these studies, non-compliance with accounting standards and lack of enforcement are readily apparent and should be apparent to users of financial reports. Research could assess the impact on apparent non-compliance with accounting standards on users of the information, notably bankers and bank investment analysts.

A very recent study by the publishers of the Asset 4 data base has indicated that companies that report sustainable information also have abnormal returns, suggesting that investors and/or analysts do not consider sustainability information in their decisions. By implication, failure to consider sustainability risk could lead to abnormally low returns or loss through financial failure.

Research is useful to assess any relation of negative or lack of reported sustainability information on low returns or failure.

4.5.1. Research Methods

This line of research could follow an approach by Baboukardos (2011, 2010). The research would involve content analysis of publicly listed European companies to identify lack of compliance. Examination of stock market reaction to the lack of compliance and other faulty financial information could then use the well-known value relevance model and other well known models that assess market reactions to accounting information. Among others outputs, the well known measurement of Tobin's Q gives an indicator of risk. Similar research methods can be used to assess the value relevance of negative sustainability information. In addition, the well known bankruptcy prediction models can be used to assess the ability of negative sustainability information to signal financial failure. The existence of the Asset 4 data base now facilitates research methods using large samples and more sophisticated quantitative methods.

5.0. Concluding discussion

This purpose of this paper has been to give structure to the diverse, disjointed area of research into accounting for sustainability, providing background, including identifying research issues, and possible research methods. In introduction and background discussions, it was apparent that the focus to date on reporting environmental, i.e. ecological, and sometimes social and governance information is narrow and inadequate. Instead, new additional research areas are emerging and some traditional research areas are taking on new perspectives. These include:

- A call for integrated reporting that integrates environmental (ecological), social, and governance information along with financial reports. Differing notions of

what represents integration exist, however.

- Interests of users of sustainability information, including integrated reports, must be considered.
- Calls for expanded roles of auditors and other assurers.
- Expanding research issues of financial failures, accounting and auditing failures, and lack of enforcement to recognize an essential sustainability component.

After presenting background, the paper analyzes the emerging issues against traditional accounting concepts, notably the postulates of going concern, entity, monetary unit and time period, the paper identified many research issues that need to be resolved. These were presented in five sets of research issues for accounting for sustainability. In the process, the paper presented background material and then identified five sets of research issues in accounting for sustainability along with methods and data sources for each:

- An accounting research framework for sustainability to be based on similar frameworks for other emerging accounting research issues using general systems theory approaches. This framework identifies systems of interest and the environment and necessarily challenges the traditional notions of reporting entity and time period, among others.
- Reporting of sustainability information which has been the focus of most research to date, and the emerging important topic of integrated reporting. The analysis challenges entity, monetary unit, and time period concepts as well as addresses which standards are to be used and how to incorporate environmental and social issues into accounting measurements.
- Users of sustainable information, their uses and perceived needs. This is an area that has been largely neglected in research to date. Research using field studies and

experiments is needed to assess users' needs and expectations.

- Auditing and assurance issues that are taking on greater importance as more users demand assurance for the sustainability information. Issues of which standards to be used can be explored and experiments would be used to assess users' expectations and how they react to different types and levels of assurance.

- Financial distress and sustainability consequences of accounting and enforcement failures that are just now being recognized as sustainability issues. Research using traditional market methods, notably the value relevance model and bankruptcy prediction models

This agenda while ambitious gives definite structure and clearly indicates a substantial change in traditional view of accounting, reporting, and auditing in a new era of sustainability.

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LE DYNAMISME DES TPE ET PME ET L'ÉVOLUTION DE L'ÉCONOMIE ROUMAINE

Jubénot Marie-Noëlle

Université de Reims Champagne-Ardenne, France

Marc de la Ville fromoît, Université de Reims Champagne-Ardenne, France

Abstract: *The Entrepreneurship concept has its roots in the mid-1970s, it is getting really important much later in the 1990s (Hernandez, 2010). The entrepreneur is at the heart of regional development as an engine of growth. It concerns the creation of enterprises, but also management, business development and networking. The aim of our research is to characterize the private sector development in Romania since the beginning of the transition to define the role of SMBs in the dynamics of development, identify the current weaknesses of the private sector and propose solutions. For our study, we used several previous studies on the characterization of the Romanian economy since the beginning of the transition. We also used recent data from the Ministry of Economy. We also used the large literature on entrepreneurship and business networks. The characterization of the Romanian economy is obtained by comparison with countries in the area but also some data from highly industrialized countries or countries of the south. Each transition is experiencing its own economic development based on its specific history and choices in terms of economic and social policies. According to our research, the private sector is characterized by an increase in the number of businesses created, but the density of firms per capita is still low compared to other countries in the area. On the other hand, companies are mostly micro (businesses without employees to create their own jobs) or small (less than 9 employees). This demonstrates a real dynamism in business creation. However, the creation of many SMBs may not be an end in itself. Entreprises have to develop in order to face competition and to achieve economies of scale, or they can even join or create their networks.*

Keywords: *Micro, small and medium enterprises (MSMEs), transition, clusters*

Classification JEL: *M20, P20*

Abstract: *L'économie de l'entrepreneuriat trouve ses racines dans le milieu des années 1970, mais connaît son essor dans les années 1990. Elle place l'entrepreneur au cœur du développement des territoires comme moteur de la croissance. Elle concerne la création d'entreprises mais aussi le management, le développement des entreprises et les réseaux. L'objectif de notre recherche est de caractériser le développement du secteur privé en Roumanie depuis le début de la transition afin de définir la place des TPE/PME dans la dynamique de développement, de déceler les faiblesses actuelles du secteur privé et de proposer des solutions. Pour notre étude, nous avons utilisé plusieurs travaux antérieurs concernant la caractérisation de la l'économie roumaine depuis le début de la transition. Nous avons aussi utilisé des données récentes provenant du ministère de l'économie. Nous avons également fait appel à la nombreuse littérature concernant l'entrepreneuriat et les réseaux d'entreprises. La caractérisation de l'économie roumaine s'obtient par comparaison avec des pays de la zone mais aussi quelques données provenant de pays très industrialisés ou encore des pays du sud. Chaque pays en transition connaît sa propre évolution économique en fonction de son histoire spécifique et de ses choix en termes de politiques économique et sociale. Selon nos recherches, le secteur privé se caractérise par une augmentation croissante du nombre d'entreprises créées, cependant la densité des entreprises par habitants est encore peu élevée par rapport à d'autres pays de la zone. D'autre part, les entreprises sont pour la plupart des micros (entreprises sans salariés permettant de créer son propre emploi) ou de petites entreprises (moins de 9 salariés). Ce qui témoigne d'un dynamisme réel dans la création d'entreprise. Cependant, la création de nombreuses TPE/ PME ne peut être une fin en soi. Les entreprises ont vocations à se développer ou à s'associer pour faire face à la concurrence et pour réaliser des économies d'échelle.*

Mots-clé : *TPE/PME, transition, densité, réseaux*

Introduction :

L'objectif de cette article est d'évaluer les forces et les faiblesses du secteur privé roumain. La démarche est la suivante : nous rappellerons dans une première partie les problèmes qui se sont posés pour la Roumanie au début de la période de transition, notamment les types et les causes des retards qui sont apparus par rapport à d'autres pays de la région. Dans une seconde partie, nous traiterons principalement des attentes et des difficultés liées à la privatisation de l'économie roumaine. Puis nous nous attarderons dans une troisième partie sur la structure du secteur privé

roumain aujourd'hui. Face aux insuffisances constatées, la constitution de réseaux d'entreprises peut permettre de palier aux insuffisances du secteur privé.

I - Le processus de la transition

Au début de la période de transition la Roumanie a pris un peu de retard dans le processus de libéralisation économique, contrairement à la Hongrie, la Pologne et dans une moindre mesure la Tchécoslovaquie, comme l'indique le tableau suivant :

Tableau 1 : Indices de libéralisation*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	Cumul 89-97	politique de stabilisation
Bulgarie	0,13	0,19	0,62	0,66	0,66	0,64	0,58	0,65	0,79	4,92	01/02/91
Hongrie	0,34	0,57	0,74	0,78	0,82	0,86	0,9	0,9	0,93	6,84	01/03/90
Pologne	0,24	0,68	0,72	0,82	0,82	0,86	0,89	0,89	0,89	6,81	01/01/90
Roumanie	0	0,22	0,36	0,45	0,58	0,68	0,71	0,72	0,75	4,47	01/01/93
Slovaquie	0	0,16	0,79	0,86	0,83	0,83	0,86	0,86	0,86	6,05	01/01/91
Tchéquie	0	0,16	0,79	0,86	0,9	0,90	0,93	0,93	0,93	6,4	01/01/91
Moldavie	0,04	0,04	0,1	0,38	0,51	0,55	0,68	0,75	0,75	3,8	01/09/93

* L'indice de libéralisation compris de 0 à 1 est une moyenne de trois indices séparés : la libéralisation des marchés domestiques (pondération de 0,3) ; la libéralisation du commerce extérieur (0,3) ; la privatisation et la réforme bancaire (0,4). La somme des indices annuels depuis 1989 est un indicateur de l'étendue des réformes.

Source : De Melo Martha, Denizir Cevdet, Gelb Alan, « Patterns of Transition from Plan to Market », The World Bank Economic Review, Vol. 10, n° 3, pp.397-424. In : World Economic Outlook, World Bank, 2000.

Le tableau suivant nous donne une évaluation du niveau actuel de libéralisation pour certaines économies en transition :

Tableau 2 :État de la réforme en 2010

	Private sector share/GDP	Large-scale privatisation	Small-scale privatisation	Price liberalisation	Trade and foreign exchange	Competition policy	Overall infrastructure reform
Bulgaria	75 %	« 4 »	« 4 »	« 4+ »	« 4+ »	« 3 »	« 3 »
Croatia	70 %	« 3+ »	« 4+ »	« 4 »	« 4+ »	« 3 »	« 3 »

	Private sector share/GDP	Large-scale privatisation	Small-scale privatisation	Price liberalisation	Trade and foreign exchange	Competition policy	Overall infrastructure reform
Hungary	80 %	« 4 »	« 4+ »	« 4+ »	« 4+ »	« 3+ »	« 4- »
Moldova	65 %	« 3 »	« 4 »	« 4 »	« 4+ »	« 2+ »	« 2+ »
Poland	75 %	« 4-↑ »	« 4+ »	« 4+ »	« 4+ »	« 3+ »	« 3+ »
Romania	70 %	« 4- »	« 4- »	« 4+ »	« 4+ »	« 3↑ »	« 3+ »
Slovak Rep.	80 %	« 4 »	« 4+ »	« 4+ »	« 4+ »	« 3+ »	« 3+ »
Slovenia	70 %	« 3 »	« 4+ »	« 4 »	« 4+ »	« 3- »	« 3 »

Source : Transition Report 2010, European Bank for Reconstruction and Development

The transition indicators range from 1 to 4+, with 1 representing little or no change from a rigid centrally planned economy and 4+ representing the standards of an industrialised market economy.

↑ and ↓ arrows indicate a change from the previous year. One arrow indicates a movement of one point (from 4 to 4+, for example). Up arrows indicate upgrades, down arrows indicate downgrades.

Les rapports de 1997 et 2000 de la la Commission Européenne soulignaient que le processus de restructuration et de privatisation avaient pris du retard et manquait de transparence, retardant ainsi l'émergence d'un secteur privé dynamique et compétitif et que les problèmes de la corruption et du marché noir devaient être résolus. Depuis, la Roumanie a développé une politique industrielle considérée conforme aux principes communautaires. La Roumanie a adopté une série d'initiatives en faveur du développement des petites et moyennes entreprises (PME), notamment : la participation au programme pluriannuel pour les entreprises, l'adhésion depuis 2002 à la charte européenne des petites entreprises, l'adoption en 2004 d'une loi sur les incitations à la création et au développement de PME, la simplification et l'amélioration des procédures administratives, la création d'un Fonds de garantie... Néanmoins, cette politique reste contrainte par certaines faiblesses structurelles.

II - Les conditions de la privatisation

Le développement du secteur privé peut se réaliser de deux façons concomitantes : la privatisation des entreprises d'état et la stimulation de l'entrepreneuriat privé. Les grandes entreprises d'État privatisées ont été peu favorables en général à l'instauration des nouvelles règles de marché, à la transformation des structures productives. Elles ont eut plutôt tendance à résister aux modifications et exploiter leurs situations de monopoles. En revanche, la création d'entreprise et l'entrepreneuriat jouent un rôle moteur dans le domaine de l'innovation. Le nombre de création d'entreprises ne cesse de croître en Roumanie depuis le début de la transition, comme indiqué ci-dessous :

Tableau 3 : Evolution des TPE et PME en Roumanie, 1999-2005

Taille des entreprises	1999	2000	2001	2002	2003	2004	2005
<i>Micro</i>	294.597	279.893	280.448	285.207	313.485	358.242	477.969
<i>Petite</i>	25.987	29.417	31.249	32.010	34.883	36.080	39.721
<i>Moyenne</i>	6.102	6.864	7.455	7.989	8.342	8.674	8.576
Total	326.686	316.174	319.152	325.206	356.710	402.996	526.318

Source : Neault (2007)

Cependant, la densité des TPE/PME de 24,3 pour 1000 habitants fin 2005, contre 54 à l'ouest de l'Europe (Neault, 2007), est insuffisante. Or pour Chandan, Mumtaz, et Parkash (2009), la croissance et le développement des PME permettent dans les pays pauvres ou émergents d'atténuer la pauvreté et la promouvoir les exportations. Les PME auraient joué un rôle crucial dans le développement de pays tels que Taiwan. Dans les pays développés, la promotion des PME serait l'un des moyens de booster l'activité. Certaines études définissent les PME à partir du nombre de salariés, d'autres en fonction de l'ampleur de l'activité.

Pour Nuno Castel-Branco (2003), les différences de la structure de la dynamique sociale et économique entre secteurs impliquent des politiques de promotion des PME différenciées. Les politiques pro-PME peuvent viser, entre autres, la mobilisation du secteur informel, la création d'emploi, la meilleure allocation des capitaux nationaux et l'innovation technologique.

III - Dynamisme des TPE/PME en Roumanie

Depuis le début de la transition, l'économie roumaine s'est beaucoup privatisée. Selon la classification d'Eurostat en micro-, petites, moyennes et grandes entreprises en fonction du nombre de salariés, la plupart des entreprises sont des micro-entreprises

Tableau 5 : Structure des entreprises actives par taille et par secteur, en 2008

Types d'entreprise :	<i>Micro 0 - 9 salariés</i>	<i>petites 10 - 49 salariés</i>	<i>moyennes 50 - 249 salariés</i>	<i>grandes 250 salariés et plus</i>
Industrie et construction	78,60%	15,70%	4,70%	1,00%
Commerce et autres services	92,30%	6,60%	1,00%	0,10%

Sources : Institut National de Statistica (INSSE), ROMANIA

En France et au Japon, la part des TPE/PME est très élevée, elle est respectivement de 97 % et 99%, mais avec densité d'entreprise beaucoup plus importante. L'auto-emploi, pour faire face au chômage et à la précarité, explique en partie le phénomène de la micro

entreprise. Mais, pour Nuno Castel-Branco (2003), la TPE/PME ne peut être une fin en soi. La nature de l'accumulation capitaliste est d'éviter la concurrence grâce à l'accroissement de la taille de l'entreprise au moyen par exemple des fusions et

acquisitions, ou de l'extension interne via l'investissement. Mais, une autre stratégie, celle de favoriser les interactions inter-entreprises (M. Perry, 1999) par un développement horizontal (association de petites structures complémentaires) permet de palier à la petite taille des entreprises. Plusieurs types de réseaux d'entreprises : les districts industriels, les milieux innovateurs, les grappes d'entreprises (clusters) ont émergé depuis une vingtaine d'années, avec le modèle des districts italiens.

La Roumanie tente d'intégrer cette dimension. Elle a participé, par exemple, au projet européen OMNI-NET (Opto-Micro-Nano Innovative Network Exploiting Transversality) coordonné par Opticsvalley (le réseau des acteurs de l'optique, de l'électronique et du logiciel en Ile de France) de décembre 2005 à mai 2008, dans le cadre du programme « Europe Innova » de la Commission européenne. L'objectif principal du projet était de favoriser le développement de coopérations entre 6 réseaux européens dans les domaines de l'optique, de la micro-électronique et des nanotechnologies, et de lancer des coopérations technologiques au niveau européen.

La mobilisation des acteurs publics, comme privés, dans la mise en place de réseaux est jugée essentielle afin de donner aux entreprises l'accès à de nouveaux marchés, à des équipements, ressources ou infrastructures, ... Le phénomène cluster est présent dans de nombreux pays occidentaux mais aussi au Sud (Brésil et Inde notamment). Les entreprises ne pourront bien tirer leur épingle du jeu relativement à la mondialisation qu'en se positionnant ainsi au cœur des réseaux, qui sont une source d'innovation.

Conclusion :

Le secteur privé connaît un véritable dynamisme caractérisé par l'évolution positive du nombre de créations d'entreprise ainsi que la mise en place de politiques industrielles favorables aux entreprises. Cependant, la Roumanie souffre encore d'un retard par rapport à d'autres pays en transition de la région, tels que la Hongrie ou la Pologne. Le secteur privé souffre de la très petite taille des entreprises et surtout de la faiblesse de la densité des entreprises par rapport au nombre d'habitants. Outre la poursuite nécessaire des efforts de la Roumanie pour renforcer son secteur productif, le développement de réseaux d'entreprises peut s'avérer être une solution intéressante pour renforcer le dynamisme économique.

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A QUALITATIVE RESEARCH REGARDING THE MARKETING COMMUNICATION TOOLS USED IN THE ONLINE ENVIRONMENT

Pop Nicolae Alexandru

Academia de Studii Economice București, Facultatea de Marketing

Acatrinei Carmen

Academia de Studii Economice București, Facultatea de Administrarea Afacerilor, cu predare în limbi străine

Abstract: *Starting from the meaning of the communication process in marketing, the authors try to identify its role in assuring the continuity of the management process in what concerns the relationships between all the partners of the company, on the long term. An emphasis is made on the role of online communication and its tools in relationship marketing. In order to validate some of the mentioned ideas the authors have chosen to undertake a qualitative marketing research among the managers of some Romanian tourism companies. The qualitative part of the study had as purpose the identification of the main tools which form the basis of the communication with the beneficiaries of the touristic services, of the way in which the companies use the online communication tools for attracting, keeping and developing the long term relationships with their customers in the virtual environment. The following tools have been analyzed: websites, email marketing campaigns, e-newsletters, online advertising, search engines, sponsored links, blogs, RSS feed, social networks, forums, online discussion groups, portals, infomediaries and instant messaging. The chosen investigation method was the selective survey, the research technique – explorative interrogation and the research instrument – semi structured detailed interview, based on a conversation guide.*

A very important fact is the classification resulted after the respondents were requested to mention the most efficient tools for attracting customers and for maintaining the relationships with them. Although the notoriety of the online marketing tools is high, there are some tools that are known by definition, but are not used at all or are not used correctly; or are not known by definition, but are used in practice.

The authors contributed by validating a performing methodology of qualitative research, a study which will open new ways and means for making the online communication tools used for touristic services in Romania more operational. It is to be mentioned that the chosen domain of application has not yet been researched within the national literature.

The qualitative research results will form the basis for a quantitative study among the consumers of touristic services in order to identify their opinion in what concerns the usage of online marketing tools by the tourism companies in maintaining the relationships with them.

Keywords: *Relationship Marketing, CRM, Online Marketing Communication, Market Research*

JEL Classification: *M31*

Introduction

The new communication media have registered an exponential development among the delivery - reception methods of the information between people. Marketing which is viewed as the analysis and action on the market has not remained immune to the major challenges determined by the

occurrence and development of the virtual communication – based on the internet applications. The strategic vision, that marks the evolution of contemporary marketing, assures a long term relationship between the companies and their market (Pop 2006: 36). The efficient administration of the companies moves the central focus of the marketing

action towards assuring the continuity and administration, on a long term basis, of the relationship with all the partners involved in this process.

Having as target to make this activity continuous and bivalent, the company assures the success of the messages it wants to send and receive. In the modern business environment the online interaction has different multiple advantages starting from smaller costs, time efficiency for the participants, a secure transaction framework and a friendly communication environment. The knowledge and most important the usage of the online communication tools in what concerns the management of the relationships with all the stakeholders of a company must be monitored permanently by using the marketing research means.

Marketing communication facilitated by the online tools

The literature referring to the new marketing communication tools is one of the most developed in the field. A large number of the analyzed aspects start from the communication mechanism and concentrate over the management of this process according to the particularities that the digital economy imposes over the speed of transmission, delivery and responses of the recipients to the messages with which they are "overwhelmed". As a consequence, the term of *online marketing* is defined more clearly (Meyerson and Scarborough 2008), which not only covers the communication area, but also focuses on it. The major changes that affected the technological, legislative, social and economic environment (Smith and Taylor 2004: 216 and next) generate an entirely new face of the communication act.

The Romanian reader can benefit of a systematic approach of the marketing aspect in the digital era by having access to the translated reference books in the field, such as Kotler et al. or Gay et al. (Kotler, Jian and Maesincee 2009; Gay, Charlesworth and

Esen 2009). It is requested to diminish the role of internet into communication due to the fact that this remains mainly a communication method in which "... the value is represented by the message not the nature of the transmission" (Gay, Charlesworth and Esen 2009: 389). The customization, the distribution of the message or the access at request of the user, makes it easier for the message to be personalized. This fact transforms the new tools of online communication in real relationship marketing tools, the later having as purpose a long term relationship between all the stakeholders and the products, services or brands of an offering company (Gummesson 2008: 36-40).

Relationship marketing, in its turn, also faced at the beginning of this millennium new developments creating a real interface for a highly anticipated field, the one of the demand holder's reactions - representing the *network marketing* (Schebesch, Pop and Pelău 2010: 37-45; Bruhn and Koehler 2010; Rouillet and Droulers 2010). All these developments reflect a significant change of the relationship between the participants in the selling and buying acts, their transformation from receivers and senders in *partners* in the process satisfying the of needs. The implication of the consumers in the production and distribution of the tangible goods and services, which satisfy their needs, becomes an important step in the entire process. Communication no longer belongs only to the one that offers, it sometimes even takes place without involving that person, having unexpected effects on the act of selling and purchasing (Trusov, Bucklin and Pauwels 2009: 90-102).

Once the global coordinates of the online strategy are settled, it is necessary to carefully select the communication and promotion tools because the moment a user accesses a company's website, he / she can be an actual or a potential customer.

The online marketing mix (Adler 2010: 14) includes plenty of components and requires the following steps: *planning, implementation*

and *control*. During the *planning* phase there are established the tools that will be used and the channels through which they will become operational. The most well known and used tools are the: websites, emails, e-newsletters, search engines, sponsored links, blogs, RSS feeds, social networks, forums and online discussion groups, portals, infomediaries and instant messaging (Pantea and Vegheş 2008: 202). The *implementation* phase presumes that, once the tools have been chosen, decisions related to the design, characteristics and frequency of use must be taken. During the final part, the *control*, the marketing activities are monitored carefully, interfering if necessary. During this step the results can be partially measured, and if necessary, the instrument can be withdrawn. Finally, the results will be measured and conclusions will be drawn for future actions.

Methodological notes

In order to validate some of the ideas mentioned above, it has been chosen the organisation, development and interpretation of the results of a qualitative research among the managers of tourism companies from Romania. The term of *tourism company* will be used from now on in order to refer to any travel agency / tour operator or touristic services provider, no matter if it is a hotel network (national or international), hotel, guesthouse, transport company (national or international), air travel company, railway or maritime company. The touristic services represent one of the services' domains that are well fitted for the introduction and generalization of the online marketing communication tools. The qualitative part of the research has focused on identifying the major tools that form the communication basis with the consumers of touristic services; the method in which the tourism companies from Bucharest use them or intend to use them in the future and on stating hypotheses regarding the way in which the potential customers are attracted and how the relationship with them is maintained.

The *four objectives of the research* (O1-O4) have focused on identifying the major virtual tools that the travel agencies use in order to attract potential customers, on the communication with the former or actual consumers of touristic services, on identifying the way in which the respective companies use the online tools and also on the reasons they are chosen for identifying their usage. The researched online marketing tools were the following: website, e-mail marketing campaigns, e-newsletter, online advertising, research engines, sponsored links, blogs, social networks, forums, online discussion groups, portals, infomediaries and instant messaging.

The chosen *investigation method* was the selective survey, the *research technique* – explorative interrogation and the *research instrument* – semi structured detailed interview, based on a conversation guide (Pop 2001: 86-87; Cătoiu et al. 2002: 207). The period when the research took place was 7-25 February 2011.

The main hypotheses of the research:

H1. The companies operating on the tourism market in Romania use virtual marketing tools in order to attract potential customers and to maintain the relationship with the present clients.

H2. The majority of online marketing tools are known and used more and more by the companies operating on the tourism market in Romania, implicitly by their managers.

H3. The tourism companies use / combine certain online marketing tools in order to attract potential customers to their websites and also some online marketing tools for maintaining and developing the relationship with them, the majority of the respondents being satisfied with the results obtained after using the tools.

H4. In the future, the marketing strategy of the tourism companies will also include online actions for attracting customers and for maintaining the relationships with them.

It has been achieved the interviewing of 18 *representatives of tourism companies* (10

representatives of travel agencies, 4 hotel representatives, 3 from transportation companies and one airline company representative), these companies have an updated website and the headquarters in (or also in) Bucharest.

The *interview* had an average length of 40 minutes. The registration of the answers given by the respondents has been done by recording on magnetic tape, in case of 16 companies, the rest expressing their will to answer in writing to the questions from the interview guide.

The working tools that have been used to *analyze and interpret the data* obtained from the interviews are: *content analysis* (Bardin 1977: 43 și next), *semantic differentiation* (Cătoiș et al., 2002: 152-154) and *Likert scale* (Plăiaș et al. 2008: 361-363).

Main results obtained and their implications

The presentation of the main results, obtained after analyzing and processing the data, will be done taking into account the objectives and hypothesis that formed the basis of the research:

O1. Identification of the relational means and tools used by the travel agencies and touristic services providers from Romania to relate with their customers;

In case of the majority of the respondents there have been noticed different views in the answers and the main problem raised by all was referring to the effects of the actual economical-financial crisis on the economy, which brought major changes in the strategy of the companies and in the way they are allocating the afferent communication budget. All the interviewed tourism companies have a website where they present their offers, the details referring to the touristic services they provide; the website being unanimously considered very important for *attracting customers*. Other means of attracting customers mentioned by the company representatives were the commercial messages sent by email to the database with

customers (natural or legal persons), the company newsletters, the sponsored links and also the presence of the company on social networks.

After attracting customers, the majority of companies consider important to retain these customers, *keeping and developing the relationship*, which they have with these people who benefitted from their offered services. One tool mentioned by all companies as being used in order to relate with the customers was the newsletter, which helps them inform the customers regarding the new offers, promotions, projects or new events, contests or surveys. The databases for the newsletters are made mostly by legal persons, being harder to create a database with natural persons. In this category, the companies have also mentioned sending emails with a commercial content, the presence on the social networks or the presence of a chat window on the website which gives the customer the possibility to contact directly a company representative. Based on these answers, H1 hypothesis is validated.

O2. Identification of the degree to which the online marketing tools are known and used by the representatives of tourism companies for relating with the customers;

To a very high proportion all the company representatives have stated that they know all the online marketing tools. A few of them stated that they do not know for sure what means email marketing and the difference between this tool and the newsletter; RSS feed is rather known by its name rather than the way it is used; the instant messaging was another unclear topic for some and this is why there were mentioned examples such as “Yahoo Messenger”, “Skype”, the chat window, etc. The H2 hypothesis is shown as being true.

O3. Determine how travel agencies use online marketing tools and the degree of satisfaction obtained after their employment; The respondents were asked *how and for what purpose* they use each of the online

marketing tools. Based on the answers there can be seen an alignment of the views regarding the purpose and the usage methods of the online tools: *the website* is in general the first contact of an internet user, potential or present customer, with the company, in the virtual environment; this is why it is very important to manage it correctly and to keep it functioning in a proper way, the website being used for presenting the company, its offers and important news; *email marketing and e-newsletters*: these two concepts have been confused a lot by the representatives during the interviews, in terms of their purpose and of the way they are used; thus based on the answers of the respondents, we can state the fact that there is a disaccord between the theoretic definition of the concepts and their practical use by the tourism companies; though both tools have been recognized by the company representatives as being used for attracting customers and also for maintaining the relationship with them; *search engines*: all the respondents consider vital for their company to be shown among the first results after generating a search, their website to appear on the first pages of the search engines after the customers introduce some key terms; *sponsored links*: all their users (one third of the respondents) declared themselves to be very satisfied with the number of viewers attracted to the website by the sponsored links that appear mostly on the search engines; *blogs*: the providers of tourism services do not have company blogs, but intend to use this tool in the future; *RSS feed*: none of the respondents mentioned this tool among the ones their company is using; *social networks*: no matter if it was a travel agency or a touristic services provider, all of the respondents acknowledged the growing importance of the social networks; *forums and online discussion groups*: none of the participating companies has an integrated forum in the company's website, only one third of the respondent companies offer their customers the possibility to add comments on

their websites; *portals and infomediaries*: only a few of the company representatives that stated their opinion believe that these tools can help in attracting customers, but less for maintaining the relationship; *instant messaging*: all the company representatives that use instant messaging stated that they use this tool for attracting new customers and for maintaining the relationship with them, though only approximately 30% of the customers who have benefitted from touristic services contact the company afterwards. All the company representatives declared themselves *satisfied* and *very satisfied* of the results obtained after using online marketing tools in order to attract customers or maintain the relationship with them; hypothesis H3 is confirmed.

O4. Identification of the companies' future steps / strategies in terms of the relationship with their customers;

The same as it was until now, in the future the marketing strategies will have as a core concept the customer and all the company's actions will take place around him. Managing the relationships with the customers will be a mix between the attraction and loyalty methods using traditional tools, the well established online ones and also the "new" online tools (social networks, blogs which might be used to interact with the customers). Hypothesis H4 is validated, the respondents being certain about their need to maintain the relationship with the customers in the online environment, without ignoring or substituting the offline actions.

Conclusions, limits and future directions of research

As a result of the interviews it has been established that from the online marketing tools presented to the respondents, only three of them are used just for *attracting customers* (the search engines, the online advertising and the sponsored links), the others being used in the same time for *attracting customers* and *maintaining or developing the relationship* with them (website, email

marketing, e-newsletter, blog, RSS feed, social networks, forums, online discussion groups, portals, infomediaries and instant messaging). Of a major importance is the classification resulted after the respondents were requested to mention the most efficient tools for customer attraction and maintenance of the relationship with them. As a result, the most efficient online marketing tools for *attracting customers* are: company's website, search engines, sponsored links, e-newsletters, email marketing, social networks, online advertising; and for *maintaining the relationship with the customers*: the website, e-newsletters, email marketing, social networks and instant messaging.

Despite the fact that the notoriety of the online marketing tools is high, there are some tools that are not known as a concept, that are not used at all or not used properly; or are known as a concept, but used in a wrong manner in practice. Though the term of infomediaries is specific for the tourism market, the ones in the business do not know its definition, but they know how it works. The term of instant messaging was also not very clear, being necessary to give examples; RSS feed tool is known better by name rather than implementation. The biggest problem is the confusion that appeared during the interviews between two tools highly used by the companies, email marketing and e-newsletter. The difference between these two concepts was presented in a previous work of the authors (Pantea and Pop 2010: 738-739). The exploratory research is recommended in case it is wanted the better understanding of a certain phenomenon, in comparison with the descriptive or causal research which is chosen for testing specific hypotheses or for studying the differences between variables (Malhotra and Bries 2007: 201 and next). *The limits of the present qualitative research* are represented by the fact that it had an exploratory character aiming to understand what happens inside the studied field and to

study the social phenomena without "explicit outcomes" (Schutt 2009: 344 and next).

The results of the present qualitative research will form the basis for a quantitative study among the consumers in order to determine their opinion related to the way the online marketing tools are used by the tourism companies.

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***Section International Business and European Integration:
Sub-section: International Business***

THE IMPACT OF THE CRISIS ON THE QUALITY OF LIFE AND SOLUTIONS TO REDUCE THE CRISIS EFFECTS. CASE STUDY: ROMANIA

Meşter Liana

University of Oradea, Faculty of Economic Sciences

Bugnar Nicoleta

University of Oradea, Faculty of Economic Sciences

Fora Andreea

University of Oradea, Faculty of Economic Sciences

Abstract: *The economic crisis creates a series of consequences such as loss of jobs, reducing wages, insecurity of the population, reducing standard of living, material hardships, low self-confidence and hope for the better, illnesses, altered human relationships, social protests, ever greater scale strikes, in other words, deterioration of the economic environment.*

This paper aims to identify possible solutions to improve the effects of the crisis on the quality of life, based on figures from surveys conducted by research firms and the possible correlations to be made between these dates, without attempting to consider that these solutions are unique or the best. The main indicators considered for identifying the negative aspects of the crisis among the population are: the evolution of unemployment, changes in gross domestic product or wage developments in the economy and the share of expenditure linked to the basic needs out of the income earned. Regarding the possible solutions to reduce the population crisis, they are closely related to the credit and monetary policy, and also to the budgetary policy.

Under the impact of the economic crisis, the business environment in Romania has suffered. Sub impactul crizei economice, mediul de afaceri din Romania a avut de suferit. Since most investments in 2008 were of foreign origin, the fact that this crisis has affected Romania as well did not surprise anyone. Nowadays Romania's business climate is characterized by lack of direct foreign investments and self funding sources whereas the population declares itself in a large proportion – more than 50% - to be affected by the crisis (1).

Effects of the crisis can also be observed in the evolution of consumers' behavior who fearing layoffs and declining revenue, not only turned to buying the same products or to purchase cheaper products, but also to reducing the amount of the purchased products. The quality of social life is essential and strongly related to stimulating economic activity. Satisfaction felt by the consumer will determine the level of consumption and will influence and ultimately decide the supply level. An adequate economic policy in Romania to restore the balance between supply and demand in the market may induce a state of economic recovery. This should be the objective of anti-crisis policies.

Keywords: *crisis, quality of life, unemployment rate, gross domestic product, wages rate, social conditions of life, economic environment*

JEL: *F41, F41, J17*

1. The quality of life in the current crisis

The direct impact of the crisis on the population leads to altered social conditions of life. A social indicator for the economic crisis assessment is the *evolution of the unemployment rate*. Given the systemic nature of the global economy, the problems the U.S. economy was confronted with were

felt and widespread in Europe and, of course, on other continents as well. If in 2007, the improvement of the economic conditions, those of the labour market included, resulted in an employment rate of the labour force at European level of 68% and a decrease in the unemployment rate up to 7% unemployment rate, in 2009 the unemployment rate increased by 2.2 percent, reaching 11% in

2010, and the employment rate decreased by 2.5% in the EU.

Another relevant indicator is *the evolution of the gross domestic product*. In 2009 as compared to the year 2008, the GDP decreased by 4.1% for the euro area and by 4.3% on average for the 27 European countries.

Inevitably, the economic crisis effects were felt in Romania as well. Studies have shown that, given the global recession, the number of bankruptcy cases has increased significantly up to the half of the year 2009. In Romania, for instance, the number of bankruptcies increased by 27% during 2008-2009, although 2008 had been a record year in this respect - for companies in Romania bankruptcies nearly doubled in 2008 compared to 2007 and most of them were in the trade. Moreover, there are a number of sectors affected strongly by bankruptcy: trade, distribution, wood and wood products manufacture (412 cases), transport (causes: the increase of fuel prices, which led to the insolvency of small carriers) construction, textile, manufacturing, hospitality sector (causes: poor competitiveness, lack of qualified personnel, poor management strategy) the catering and automotive industry, the areas with the lowest risk, where they recorded the fewest cases of insolvency, are producing and supplying electricity and heat, water and gas, metallurgy, financial intermediation, telecommunications and IT. For example, in Romania since 2008, the number of payments made under conditions of insolvency has increased the production twice and three times that of wholesale and retail trade, construction and only in the construction industry were recorded 10 or more payments in circumstances of insolvency.

In Romania, the crisis in the construction sector has caused problems to companies in the wood industry, leading to lower orders and financial difficulties among companies in the forest administration. The annual

review of working time evolution also revealed that the length of the workweek reflected a clear distinction among the 27: only 13 of the EU countries had working weeks longer than the EU average. The longer working week was recorded in Romania, where full time employees were working, on average, about 41.8 hours a week.

Regarding *the evolution of wages* between 2008 and 2007, all EU countries have recorded increases in average wages agreed in collective agreements. However, the surge in inflation rate has reduced the wages rise set in the collective agreements, from 3.6% in 2007 to 1.3% in 2008 in real terms. In countries where real wages have still continued to grow (and for Romania), increases were much lower in 2008 than in 2007.

It is obvious that there are differences and similarities between Member States in Europe. Yet the satisfaction levels vary significantly among social groups: people with higher incomes, better health status, secure jobs and higher levels of education are generally more satisfied with their lives. Although Bulgaria and Romania have a similar GDP per capita, the level of satisfaction in Romania is much higher than in Bulgaria. Consequently, there is no proportional relationship between national income and level of satisfaction. 70% of EU citizens have a dwelling, and nearly half of them hold it definitively, without any mortgage or loan. The proportion of people with home ownership is much higher in countries of Central and Eastern Europe where, on average, 74% of citizens have total ownership of the housing, the highest proportion being recorded in Romania (87%) -this high percentage of ownership does not translate into a higher quality of housing.

The recession of 2008 has fundamentally changed the living conditions of many European citizens, causing for Romania a decline of the possibilities to provide the basic needs: adequate warming of the house,

an annual holiday, new furniture to replace old furniture, a meal that includes meat, chicken or fish every other day, new clothes and means of taking care of guests at home a meal that includes meat, chicken or fish every other day, new clothes and means of taking care of guests at home - from 30% in 2007 to 26% in 2009, significant differences being perceived throughout the country as well: 25% of the poorest people lack four of six items, while a percentage of 25% of the wealthiest citizens lack only one element. In Turkey, the Former Yugoslav Republic of Macedonia, Bulgaria, Romania, Hungary, Lithuania, Slovakia and Latvia, 25% of the richest people suffer from many

shortcomings than the poorest 25% in Denmark, Sweden, Luxembourg and the Netherlands.

There is an obvious downward trend in Europe from 2007 to 2009 in nearly all states regarding the satisfaction with the level of living. In Romania, this trend is sudden, the largest decline in satisfaction with the level of living were recorded among people of 65 or more who have suffered the greatest decrease in quality of life in general as a result of the fall in the purchasing power of pensions.

Regarding the evolution of the number of jobs, it is shown in the following table (*table no. 1*):

Table no. 1 Jobs lost and created by sectors in 2009-2010

Fields of activity	Nr. jobs lost / created
Automobile production	-70377
Financial intermediation	-57417
Public administration and defence	-46802
Trade	-44621
Machinery and equipment production	-42545
Post and telecommunications	-35452
Metallurgy	-23770
Road transport	-22712
Electric equipment production	-21358
Food and drink production	-20466
Financial intermediation	6215
Computer and related activities	6470
Coal Mining	7650
Other economic activities	8592
Post and telecommunications	8860
Electricity, gas and hot water supply	11510
Automobile production	12744
Public administration and defence	13999
Hotels and restaurants	22220
Retail	47157

Source: adapted from <http://www.eurofound.europa.eu/pubdocs/2010/16/ro/1/EF1016RO.pdf>.

The Romanian economy has lost more than 370,000 jobs over the last year. *In late 2009, the number of employees had fallen from 4.73 million jobs to 4.36 million. 40% of the jobs lost in 2009 belonged to the*

construction and industry field. At the end of 2009, the number of employees fell from 4.73 million jobs to 4.36 million. 40% of the jobs lost in 2009 and belonged to the construction industry. After 2005, over a

third of the new jobs have been created by the state, and personnel costs incurred by public money have doubled the budget. The fact is that the missing 370,000 jobs by the end of 2009 equal the number of jobs created in five years of economic boom.

2. Anti-crisis solutions:

There are a number of protectionist measures to be found in the specialized literature meant to diminish the effects of the crisis. -

In his book *Après la démocratie*, Emmanuel Todd (2), considers that when confronted with the "brutality" of the crisis and of the unemployment rise, more and more people were in favour of the strengthening of protectionist measures, starting with a form of "European protectionism "done in the name of" a necessary correspondence between economic and social spaces. " This solution is proposed taking into account the fact that rising wages will encourage consumers to absorb more of the market offered, resulting therefore in real possibilities of production relaunching.

Michel Aglietta (3) believes that, given the current crisis, the adoption of protectionist measures could be a factor that deepens the crisis and brings along the risk of damaging relations between states, this claim is based on the fact that a concerted international action is absolutely necessary for successful implementation of existing measures to halt the crisis. Even if the European protectionism helped the economies of European countries in fighting against the international market, there are factors that hinder the adoption and implementation of protectionist measures in the EU domestic policy, factors resulting from the differences between the economic development of EU countries.

Michel Aglietta believes that Europe has been profoundly affected during this period of crisis (4) because of the absence of a robust and well-based industrial policy, and also due to the promotion of a clear policy against competition coming from outside the

EU. In this context, the research and development policies remain the national ones, generating an unnecessary competition between companies from different EU countries, a process also exacerbated by political sensitivities between countries; EU holds its own responsibility because it supported the fight for the dominant position in the EU through protectionist measures against other areas, America, Asia, this European protectionism preventing firms from moving towards the development of extra-European activities. -

Referring to the book written by Emmanuel Todd, Daniel Bensaid asks in his article "Keynes et après? (5) "to protect? whom and against whom? If Europe started by adopting social measures of convergence in terms of jobs, income, social protection, labour rights, harmonization of taxation, then Europe might legitimize the adoption of protective measures and not the interests of selfish industrialists and those in the financial environment whom it favours." Europe could help the developed countries in supporting the joint development through agreements with less developed countries in terms of migration, technical cooperation, fair trade. Without these measures, he believes, the protectionism of the rich would have negative consequences upon these developing countries as main effects.

One of the measures put forward in order to reduce the impact of the crises upon the European Union countries, is a European economic recovery plan (6), which has proposed to come not only with supporting solutions for EU countries, but also practical help in this regard.

Thus, the plan devised at the European level aims at using all available means and instruments of action at EU and national level; it is a plan meant ultimately to lead to economic growth and creating jobs by means of the objectives to promote economic recovery and that lead, ultimately, to economic growth and creating jobs.

The strategic objectives of the Recovery Plan were:

- stimulate demand and consumer confidence;
- harmonization of market conditions with the requirements in terms of competitiveness by stimulating economic growth and new jobs;
- stimulate economic activity without affecting the environment security.

To achieve these objectives, there were proposed concrete measures that can be implemented in the economies of EU countries with the aid provided by EU institutions.

The monetary and credit policy - is vital when in crisis and must be managed carefully by the bank that carries it out - the European Central Bank ECB. In this respect, the ECB has created a drop in euro zone interest rates to stabilize the markets by lending money to supply banks with cash to help their clients. Similarly, the European Investment Bank EIB will increase by about 15 billion its annual interventions in the EU countries' economies by providing loans to positively influence and lead these national economy out of recession whereas the European Bank for Reconstruction and Development will help the new Member States with 500 million per year to get out of recession and to start the economic recovery.

Budget policy – within the national budgets for 2009, and then for 2010 there were measures to be taken requiring an amount of approx. 170 billion or 1.2% of GDP at EU level so as to produce positive effects, and, if possible, long term ones: to boost purchasing power of consumers by improving the functionality of market adoption of emergency measures to strengthen the link between wage-fixing mechanism and the evolution of productivity, employment policy supporting and facilitating labour market transitions, reducing administrative costs.

For blurring effects of the crisis on global business environment, the Government

Strategy for improving the business environment 2010-2011 proposes a number of measures to be implemented with minimal cost: restoring flows of foreign capital, promoting responsible business conduct, reduce trade costs and providing national consulting firms to solve the crisis.

The government provides a series of actions aimed at:

- improving the dialogue by creating public-private consultations designed to ensure greater transparency in the regulations;
- supporting the business environment by encouraging freelance professions;
- developing the cooperation with specialized departments of the central government institutions.

The EU has published recommendations in individual reports on each Member State to achieve the objectives of the annual package "Lisbon". These recommendations have as a major priority the protection of the European citizens regarding the consequences of the financial crisis and the implementation of several policies such as integration, retraining, valuation of professional competencies, especially in what the licensed unemployed workers are concerned.

Conclusions:

Many economists, coming from different socio-cultural spaces, aim at finding further reforms for getting out the crisis. Their dilemma lies in the fact that I cannot answer exactly to what extent the preservation of capitalist structures, as they were promoted through the writings of the interwar reformers can still be possible under current conditions. For Romania, the confidence in overcoming the crisis is still, the lowest in Europe. However, the direction is positive: in 2011 the population confidence index measured by the Consumer Confidence Barometer for the European Commission has recorded an average increase compared to the average of the year 2010, reaching -46 to -54, showing the Romanians more optimistic especially at the beginning of the year.

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Section: International Business and European Integration
Sub-section: EU Sustainable Economic Development and
Competitiveness

POVERTY AND LIVING. ROMA POOR NEIGHBORHOODS IN ROMANIA AND HUNGARY

Olah Gheorghe

University of Oradea

Olah Șerban

Univerisity of Oradea

Flora Gavril

Christian Partium University of Oradea

Szekedi Levente

Christian Partium University of Oradea

The first part of our paper is a theoretical debate of the most important research results concerning the Roma population in Romania and Hungary, while in the second part we proceed to the interpretation of our own empirical research data.

Methodologically, our research is based on sociological survey. Data concerning socio-occupational characteristics of Roma communities have been collected by means of a questionnaire based survey of active aged Roma population from Oradea and neighbouring rural localities in Romania and Hungary (Oșorhei, Ineu de Criș, Biharkeresztes, Told).

The paper concludes with policy recommendations aimed at the members of the target group.

This paper presents the outcome of an euro-regional comparative research conducted in 2010 in two neighboring border areas: Bihor (Romania) and Hajdu-Bihar (Hungary), financed by a grant awarded by the European Regional Development Fund. The first part of the paper includes a theoretical overview of the most important research results concerning the Roma population in Romania and Hungary, while in the second part we proceed to the analysis of our own empirical research data. Methodologically, our research is based on the sociological survey. Data concerning socio-occupational characteristics of Roma communities have been collected by means of a questionnaire based survey of active aged Roma population from Oradea and neighboring rural localities in Romania and Hungary (Oșorhei, Ineu de Criș, Biharkeresztes, Told). Due to the fact that data set is very large and complex we will focus on data concerning living conditions in poor neighborhoods.

1.1. Introduction

The Roma (or Gypsies) are a unique minority in Europe. Unlike other ethnic groups, they have no historical homeland and live in almost all countries in Europe and Central Asia. The origin of the Roma in Europe is widely debated. Historical documents indicate that Roma have migrated in waves from northern India to Europe between the 9th and the 14th century. On the other hand, historical studies show that the Roma were very much persecuted by the majority from the very beginning of their arrival in Europe. The measures taken against them ranged from hanging, drowning, reddening with iron, imprisonment, enslavement, deportation. The Western Europeans were more drastic in their measures against the Roma than the more permitting Turks, who invaded the South-East and parts of Central Europe⁹. Perhaps this explains even in today Europe a greater

⁹ Fraser, Angus, 2010, **Țigani**, Editura Humanitas, București, p. 190

concentration of Roma in the Central and Eastern European countries.

Roma is an extremely diverse population with multiple subgroups based on language, history, religion and different occupations. While in some countries Roma are nomadic, most of them in Central and Eastern Europe have become sedentary – some of them in the days of the Ottoman rule and others in the socialist period.¹⁰

Estimating the size of the Roma population is a complicated issue. Census data are intensely disputed as many Roma do not identify themselves as Roma in surveys. On the other hand, the official figures, the results of the population censuses are contradicted by other studies which aimed to estimate the number of Roma population¹¹. Some estimates show that the number of Roma increased up to 6 and 9 percent in Bulgaria, Macedonia, Slovakia and Romania. These percentages may increase for the foreseeable future because of the difference between fertility rates in populations of Roma and non-Roma. Romania has the largest Roma population in Europe, estimated figures ranging from 1 to 2 millions. A large Roma population (between 400,000 and 1 million) lives in Hungary, Bulgaria, Slovakia, Turkey and Serbia. The largest population of Roma in Western Europe is in Spain (about 630,000), France (310,000), Germany (70,000) and Italy (130,000). In total between 7 and 9 million Roma live in Europe - a population equal to that of Sweden or Austria.¹²

The Roma population in Romania and Hungary has some special characteristics compared to other minorities. By tradition, it

is a population with a low social status, typical object of comparison as the poorest category of population and strongly exposed to discrimination and social exclusion. To these one should add other features, such as failure of modernity or difficulties of identifying the exact size of the Roma population.¹³

Historically, the Roma population had a disadvantaged position over the centuries. While by the end of the XIXth century, Roma were slaves on the estates of Romanian or Hungarian nobles (Transylvania), in the last two centuries, this population has experienced a period of emancipation, have been offered equal rights with the majority population and small land plots. In the socialist period the situation of Roma populations improved to some extent. These policies resulted in a relative improvement of their education level and the beginning of their involvement in the formal economy. However, the price they paid was forced integration and a loss of cultural specificity.¹⁴

The post-communist transition has caused many changes in the life of Roma communities. Some Roma even regret the socialist regime; even if they were not recognized as a national minority, the assimilation policies were offering them at least some degree material safety. In contrast, the post-socialist period was full of changes and paradoxes for Roma. On one hand, it allowed the recognition of Roma identity, politically and culturally, on the other hand, it emphasized the economic and social marginalization and rejection of this community.¹⁵

In the present context, the Roma issue is not a simple one. Several economic and social factors are combined here; while the ethnic dimension of the problems can not be

¹⁰ Ringold, Dena, Orenstein, Mitchell, Wilkens, Erika, 2003, **Roma in an Expanding Europe. Breaking the Poverty Cycle**, The World Bank, p.1

¹¹ Preoteasa, Ana Maria, 2003, **Prezentarea unei cercetări internaționale cu privire la starea romilor în Europa Centrală și de Est**, in Calitatea Vieții, XIV, no.2, p.265

¹² Ringold, Dena, Orenstein, Mitchell, Wilkens, Erika, 2003, **Roma in an Expanding Europe. Breaking the Poverty Cycle**, The World Bank, p.1

¹³ Voicu, Mălina(coordinator), 2007, **Nevoi și resurse în comunitățile de romi**, Soros Foundation Romania, București, 2007, p.7

¹⁴ Ibidem

¹⁵ Pons, Emanuelle, 1999, **Țiganii din România**, Editura Compania, București, p. 137

ignored, it stems to great extent from the crisis crossed by Romania and Hungary during the transition period, which has a particular effect on the Roma population. Viewed in economic terms, we can say that Roma are the poorest population in Romania and Hungary, perceiving the economic vulnerability and social exclusion as their main problems.¹⁶ The poverty level of this ethnic group is a combined outcome of several factors. As Marian Preda stated, poverty can be considered only a specific dimension of social exclusion, the financial one¹⁷. Other forms of exclusion are also involved: exclusion from the democratic and legal system, labor market exclusion, exclusion from the state welfare system, exclusion from the family and community system.

According to recent research, the causal factors seem to have mainly an individual determination and to a certain extent, a cultural one, pointing to self-exclusion¹⁸. The economic vulnerability of Roma is thus caused by a complex of factors such as low educational and vocational training, the precarious position on the labor market, the great number of children in Roma families, their discrimination by the majority group and the involvement in the informal economy. One can speak of a vicious circle in the case of the Roma. Being poor in the vast majority, they do not have the resources to complete their educational and professional training. Many of them not having jobs, they get involved in the informal economy, or immigrate to western countries.

1.2. Roma in the sociological literature

The sociological literature on the problems of the Roma community is rich. The research

developed on the Roma communities is achieved both by quantitative and qualitative methods. Both approaches appear to have pros and cons. Quantitative methods are useful to illustrate comparisons between the populations of Roma and non-Roma, both at a national and a European level. On the other hand, information on Roma can not be regarded as the most reliable data and they are also difficult to be obtained. Due to statistical problems related to ethnic self-identification, the quantitative research has serious limitations. However, the quantitative data provide possibilities for comparative analyses of welfare measures that can improve the elaboration and implementation of social policies.

While quantitative research shows that Roma poverty is distinct, it does not provide an adequate basis for understanding the specific dynamics circumscribing Roma economic vulnerability. In this field of study, qualitative research might have a higher effectiveness in identifying social processes, mechanisms and relationships between variables that are difficult to be emphasised by using exclusively quantitative methods. Qualitative research, however, has also certain disadvantages. It tends to focus on just one specific issue, focusing on a limited number of factors. That is why a combination of quantitative and qualitative methods can provide a complementary set of perspectives leading to a better understanding of social problems and policies.¹⁹

A remarkable comparative research project on the Roma community in six Central and Eastern European Countries (Hungary, Bulgaria, Slovakia, Poland, Russia and Romania), both quantitative and qualitative, has been conducted between 1999 and 2000, coordinated by Ivan Szelenyi (Yale

¹⁶ Voicu, Mălina(coordinator), 2007, **Nevoi și resurse în comunitățile de romi**, Soros Foundation Romania, București, p.7

¹⁷ Preda, Marian, 2002, **Politica socială românească între sărăcie și globalizare**, Editura Polirom, Iași, p. 101

¹⁸ Ibidem, p. 168

¹⁹ Ringold, Dena, Orenstein, Mitchell, Wilkens, Erika, 2003, **Roma in an Expanding Europe. Breaking the Poverty Cycle**, The World Bank, p.4

University).²⁰ Some interesting methodological conclusions for the study of Roma communities have been drawn. During one year, the researchers analyzed between 10,000 and 19,000 Roma households. In the same time a questionnaire was applied on an oversample of Roma in Bulgaria, Hungary, Poland and Romania. The researchers have also made some qualitative studies of communities in extreme poverty in these countries.

In 1993 people in all countries experience a similar deterioration in living standards compared to 1988. Since 2000 the trend is a decrease of the poverty in countries that have implemented more rigorous liberal reforms, for instance Hungary and Poland, as well as in countries with slow progress to the model of liberal capitalism.²¹

The study revealed that transnational differences are as important as the ethnic differences. For example, Roma in Hungary are slightly poorer than non-Roma in Bulgaria. In all the countries, Roma are overrepresented in the poorest deciles of population. However, most of the very poor people consist of non-Roma. There is also a significant category of Roma who has a good enough standard of living in all the countries mentioned. The conclusion of the researchers is that the Roma who have successfully maintained the traditions were more likely to avoid the trap of poverty than those assimilated to the fringes of society.

One of the most quoted qualitative studies in the international literature studying the Roma is the English anthropologist Michael Stewart's, presented in *"The Time of the Gypsies"* (1997), a remarkable social ethnography of the Roma in the Hungarian town of Harangos, located at north of Budapest, a survey using the method of participatory observation. The English anthropologist developed the research

through a field work conducted during 18 months between the years 1984 and 1985. During this period he lived with his wife and children in an area called *"The third class"* in a Roma neighborhood of the town, a town where, according to a census of that time, around 1000 Roma lived.

Until 1989 the official communist policy was to integrate the Roma in the "leading" class, the communist working class. However, Roma have found ways to maintain their own identity. Michael Stewart's book examines the refusal of Roma to abandon their lifestyle and accept assimilation to the majority population. Forget, Michael Stewart warns us early in the book, about the carefree freedom of caravans and campfires. These men lived hard and brutal sometimes. They dreamed of richness gained through gambling and stealing horses, but in reality were poor as a church mouse. They lived in ghettos, but their names and law argued that the Roma are working people, often working for low wages in industry and collective farms. And despite the marginal position and sufferings they endured they preserved the dignity and the joy of being Roma.²²

Michael Stewart's book describes the cultivation, celebration and reinvention of the cultural difference and diversity of some people deemed by their superiors too stupid and uncivilized to have their own culture. Since the beginning of the Second World War there were two dramatic ways to solve the "gypsy problem". Between 1941 and 1945, the Nazis exterminated about 500,000 Roma in their effort to clear the "degenerated" and "antisocial" way of life. Between 1957 and 1989, said Stewart, a different type of anti-Gypsy campaign took place in the Eastern Europe. Nobody was made prisoner, left to die alone. Repression and discrimination did not exist in the plan of the communist reformers. But the final goal was strikingly similar to the fascist one, the Gypsies

²⁰ One outcome of this research is a work entitled *Poverty, Ethnicity and Gender in Transitional Society* (2002).

²¹ *Ibidem*, p.9

²² Michael Stewart, 1997, *The Time of the Gypsies*, Westview Press, Colorado, p. 1

disappearance. The East European communists' task in 1957, says the English anthropologist, was really Herculean: the cultural assimilation of millions of people who had suffered discrimination for centuries. The former Yugoslavia being partially an exception, Gypsies had been subjected to a systematic campaign of assimilation. Czechoslovakia, Poland, Soviet Union, Romania and Hungary pursued almost identical policies.²³

The English anthropologist notes, however, that, ironically, far from being assimilated in the working class, the problems associated with the Gypsies became larger as the campaign of assimilation continued. Stewart noted that in the Hungary of the period the research was held, the Gypsy issue was given greater importance than ever, since the 1930s. Two sources led to this attitude. First there was a dramatic gap between the theory of social inclusion and the reality of increasing social differentiation. The Communists told to the non-Roma that they had done much to improve the lives of Roma and their disappearance could be expected soon. But there was little evidence in this case. Two: the policies reproduced in a new form the old ideas about gypsies being "others". The economic and social system entered into crisis in 1980s, the Gypsies otherness became clearer and more ominous.

The Romanian literature on the Roma issues is related especially to the researches carried out by the Institute for Quality of Life in Bucharest.²⁴ The work coordinated by Elena

and Cătălin Zamfir, *Gypsies between worry and neglect* (1993) can be regarded as the first and perhaps the most extensive analysis of the problems of Roma in Romania, based on a quantitative research on a representative sample of Roma households. In this book a number of issues concerning the Roma are considered, such as housing, education, professions and occupations, family and living conditions of the children.

Nine features are invoked - social-economic trends of the Roma population - which have an overwhelming effect on their opportunities: decreased access to jobs offered by the modern economy, labor market niches that Roma have a special access (traditional professions, businesses on their own, unskilled jobs), precarious and uncertain nature of many economic resources traditionally exploited by the Roma, marginal or even deviant exploitation of the community, increasing crime, its organized character and violence, antagonizing relations between the majority population and Roma population, the number of children, poor housing conditions and migration to cities and the risk of "pockets" of poverty and chronic juvenile with a strong ethnic coloring. The conclusion of the whole analysis is that the Roma population faces serious social and economic crisis. The traditional life strategies provide only the chance of survival in this crisis, but not for its overcoming.

1.3. Living in poor areas

The analysis of the poor areas as living spaces is an integral part of any discourse on new poverty and its focus on clearly defined territories. To validate an area as poor assumes the presence of deprivation concerning the housing and the prevalence of precarious living conditions. In this regard, the poor areas are described as areas with no or poorly equipped facilities, poor natural environment, the house in an advanced state

Mihai Surdu on school segregation and schools with Roma students.

²³ Ibidem, p.5

²⁴ After 1990, a number of research papers on this area appeared: Cătălin Zamfir and Elena Zamfir, *Gypsies between worry and neglect* (1993), Cătălin Zamfir and Marian Preda, *Roma in Romania* (2002), Marian Preda, *Romanian social policy between poverty and globalization* (2002), Manuela Stănculescu and Ionica Berevoiescu, *Poor as a church mouse, looking for another life* (2004). In the work *A new challenge: the social development* (2006), coordinated by Cătălin Zamfir and Laura Stoica, there is a chapter signed by the sociologist

of degradation and poorly provided with urban facilities. The specific phenomena for the poor areas are housing insecurity and overcrowded housing.²⁵

There are several important analyses on living in poor areas in the international literature. In the West sociologists are primarily concerned with the poor areas of the urban, often called ghetto or banlieue. As William Wilson, an African-American sociologist considers, the concentration of black people in the ghetto is the result of the reduced access to employment and socialization. European sociologists such as Loic Wacquant, are adding another element, namely the already mentioned stigmatization of people living in poor areas of large urban agglomerations. The Dutch researcher Eva van Kempen also mentions a fourth factor, the limited access to social rights²⁶.

In connection with the topic discussed, there is a recently completed European project coordinated by Ronald Van Kempen, a Dutch urban geographer at the University of Utrecht, entitled *Large Housing Estates in Europe: Good Practices and New Visions for Sustainable Cities and Neighborhoods*. The main objectives of this project (which includes case studies in cities in Hungary) were to identify the social and economic changes that took place in the social world of the blocks built after the Second World War and the development of some items which proved to be important in the success or failure of the social policies applied to the areas of blocks²⁷. The researchers concluded

that these areas of blocks concentrate people with modest incomes and a low stock of social cultural and political capital. The block areas are also characterized by a higher rate of unemployment and crime and a higher level of social exclusion. Although the researchers found that the block areas are in a state of failing all over Europe, there are also situations where deprivation, bad construction and management do not result in revocation. Second, East-West differences are noticed in terms of social cohesion and solidarity of the inhabitants of the blocks in the projects of rehabilitation of buildings and layout of the green spaces surrounding these buildings.

With regard to housing problems in the poor areas of Romania (most papers on this topic focusing on the housing problems of Roma communities), I should mention the work of researchers like Cătălin and Elena Zamfir (1993), Cătălin Zamfir and Marian Preda (2002), Manuela Stănculescu and Ionica Berevoescu (2004), Cătălin Berescu and Mariana Celac (2006) or Cosima Rughiniș (2008). The main issues considered by these works are: poor housing, housing density, documents of the buildings and land ownership and access to utilities. The main findings of the authors are the significant differences between the statuses of Roma and non-Roma, and also the significant differences between rural and urban areas, the Roma living in the rural environment having poor living conditions. We will see to what extent some of these findings could be verified on the cases studied by us in Bihor and Hajdu Bihar.

²⁵ Stănculescu, Manuela Sofia, Berevoescu, Ionica, 2004, *Sărac lipit,caut altă viață!*, Editura Nemira, București, p.128

²⁶ Van Kempen, Eva, în Marcuse, Peter și Van Kempen, Ronald, 2002, *Of States and Cities*, Oxford University Press, p.245

²⁷ Murie, Alan, Siedow-Knorr, Thomas, Van Kempen, Ronald, 2003, *Large Housing Estates in Europe.General Developments and Theoretical Backgrounds*, Utrecht University, p.11

1.4. Roma in Bihor and Hajdu-Bihar

1.4.1 Bihor County

Bihor County is the third in Romania according to the percentage of the Roma per population (5.01%), after Mureș County (6.96%) and Sălaj County (5.01%). There are around 30,200 Roma in Bihor County. Most of them live in Oradea, 6,000 to a total of 206,000 inhabitants. The most concentrated Roma communities are in Săcuieni (3,700),

Tinca (2,500), Diosig (1,500), Batăr (1,500), Sânmartin (1,070), Aleșd (1,000), Suplacu de Barcău (900) and Ineu (850).

Roma, statistically a minority, are 89% of those who abandon school in Bihor County and, according to police estimations, 8 of 10 offences are committed by Roma. Only 10% of the Roma are employed and only 50% of them have an identity card. These are some statistical data which illustrate a dramatic reality of this minority. As in the other parts of Romania, the problems the Roma have to face in Bihor are the low level of education, the dropout, the precarious position on the labor market, living and health problems.

In recent years, two qualitative studies have been conducted on the Roma in Bihor: The first study (Olah, 2004) focused especially on the dropout, stressed that education is a major factor for the modernization of the Roma's life, maybe the decisive factor, and that the low level of education is strongly correlated with the precarious integration of the Roma on the labor market and with the juvenile delinquency. An important conclusion of the study is that Roma elite with high education should be the solution for the change of the dramatic situation of the Roma communities²⁸. The second study (Olah-Baltătescu 2008) focused on the problems of the Roma in Oradea²⁹. The data analysis confirmed that the problems of the Roma are related to:

- improper conditions of living
- extreme poverty
- the precarious health (especially contagious diseases like TBC)

²⁸ Olah, Șerban, 2009, **The School Dropout in Bihor county. A Qualitative Approach**, Revista Universitara de Sociologie, Craiova, Romania, Year VI, nr.1(11), p.101

²⁹ Olah, Șerban, Bălțătescu, Sergiu, 2008, **Nevoi și servicii sociale în comunitățile de romi. Studiu calitativ în municipiul Oradea** in Revista de Asistență socială (nr.3-4), București, ISSN 1583-0698,p.34

- lack of professional training, the precarious position on the labor market, low incomes due to the lack of professional training
- the precarious education.

The initiative of the Romanian Government in 2000-2004 to create some special places for the students of the Roma communities seems to be efficient. There is also needed a more active involvement of the NGOs, Town Halls, leaders of the Roma communities.

The main reasons of the dropout in Bihor are: poverty, low level of education of the parents in the Roma community, the parents' lack of interest for school problems, family life disorganization, the tradition in the Roma community, the wrong attitude of some teachers towards some pupils, especially Roma, the low number of school psychologists in the schools of Bihor and the friends of the pupil.

Both mentioned research papers are underlining the necessity of continuing the social projects for the Roma, developing the NGOs which carry out such projects and forming the elite of the Roma community who will support the disadvantaged communities by involving them in such projects.

1.4.2. Hajdu-Bihar County

In Hajdu-Bihar, 10 836 persons declared Roma identity at the latest census (in 2001), comprising 5,7 % of the total Roma population of Hungary. The share of Roma within the county's total population is 2 %. However, the number of those who live a specific Roma way of life is much higher. A nationwide representative survey conducted by the Hungarian Statistical Office in 2003 found that in Hajdu-Bihar county 44 200 persons (8, 2% of the total population) are assigned a Roma (Gypsy) identity by their immediate neighborhood. According to this indicator, Hajdu-Bihar is the county with the fifth largest Roma population in Hungary.

The Roma population of Hajdu –Bihar country is confronting to a large extent with

the same problems as their co-ethnics at the other side of the border:

- Comparatively very high rates of fertility combined with high rates of mortality, which results in a rather young age structure compared to that of the county's total population
- Much lower educational level than the county average
- Extremely reduced level of economic activity/employment

A survey of 200 Roma families conducted by the Department of Sociology at the University of Debrecen³⁰ found that the rate of Roma employment is six times lower (in case of female population seven times lower) compared to the general rate of employment. Most of the Roma subjects questioned during the survey expressed their desire to work, but complained of lack of job opportunities.

Beyond this general image, however, a rather perceptible generation-related differentiation has been observed. Members of the middle aged generation who had been occupied in economic activities during communist times are more likely to be employed today as well, compared to the members of the new generation socialized after 1989, who tend to prefer social benefits instead of work. Most of them never had any legal job.

As far as perception of the employers' attitudes is concerned, 72% of the respondents said they never experienced any discrimination while looking for a workplace, however 26% of those questioned indicated that they were not hired due their belonging to the Roma population. Among the surveyed families 40% have some links with agriculture: 18% is cultivating a piece of land, 10 % are occupied with livestock-farming, and 12 % are doing both. In the case they would receive free of charge agricultural

land for personal use from the local government, 25% declared that they would not cultivate it, but 72 % said that they would. (41% would produce only for personal use, 31% even for the market)

The survey found that in the preceding month 10% of the respondents had some income originating from occasional, usually agricultural work. One working day in the local agriculture is normally 10 hours long, and the per diem payment stands at 3000 forints (approximately 12 euros). Persons belonging to the poorest strata of Roma population, most of who also suffer of various illnesses, cannot access even this rather modest work opportunity.

On the other hand, the results of research show that in certain conditions occasional work might also become a resource of upward social mobility. For example, in one rural locality (Bagamer), 50 Roma workers employed in agriculture on day to day basis managed to learn how to produce horse-radish, and subsequently used this knowledge in order to start their own small farms, in pieces of land bought from or lent by local inhabitants. A social land-lease program by the county authorities encouraged Roma communities to start agricultural initiatives (such as poppy seeds cultivating or goat – breeding) in other localities as well. Some of these endeavors proved successful, but others failed, mainly due to the lack of Roma agricultural tradition and business skills. In order to maximize the outcome of these programs, members of the Debrecen University research team suggested that as a first step it would be more beneficial and sustainable to focus on producing for family consume, rather than for the market.

1.5. Quantitative Data Analysis

How satisfied are Roma with their life? Is the quality of life of Roma in Hungary higher than that in Romania? Which is the quality of Roma living in the two countries? What is the relationship between the Roma and various items of labor? Which is the level of

³⁰ Beres, Csaba, 2004, **A Hajdu-Bihar megyében
elo Roma lakossag helyzete.**
http://www.romaweb.hu/doc.../szociologiai_tanulmany_hbm.doc

education and occupational training? What work experience they have in the formal economy? What incomes do they have? How healthy they are? How religious they are?

These are only a few of the starting questions of a quantitative research conducted between January 10 to March 7, 2010 in several urban and rural areas in Romania and Hungary. The research is an integral part of a cross-border project called *Roma Employment*, funded by the European Regional Development Fund.³¹

This project analyses the integration of the Roma into the labor market in Romania and Hungary and includes both a research component (data collection, a test of occupational skills, applying a questionnaire, conducting focus groups) and practical activities such as organizing two job fairs for Roma (Oradea and Biharkeresztes).

The quantitative research aimed at collecting data on quality of Roma life in settlements with a high density of people belonging to this category: Oradea, Osorhei, Ineu de Cris in Romania and Biharkeresztes and Told in Hungary. It should also be noted that in most of these places Roma live in neighborhoods where they are the majority. We have to mention that interpretation of our research data is based on comparative analysis of two samples of Roma, one from Romania (Bihar county) and another from Hungary (Hajdu-Bihar county). The sampling method used is the non-probabilistic one and involves the snowball principle. Only persons able to work and who are seeking employment, aged between 18 and 55, were selected. In total, a number of 322 subjects answered to the questions.

As collected data are numerous and extremely complex, in this paper we focus only on those related to living conditions. We aim to realize the presentation and analysis of the full set of quantitative and qualitative data in a volume dedicated to the study of Roma in Romania and Hungary.

In our research we will test several hypotheses which we shall mention below.

H1: There are significant differences between the housing conditions of Roma in Romania and Hungary.

H2: There is a significant relationship between satisfaction with life and satisfaction with housing.

H3: There is a direct link between satisfaction with housing and income.

H4: There is a direct link between the size of dwelling and income.

H5: There is a negative correlation between the number of persons in the household and the income.

1.5.1. Satisfaction with life

How satisfied are Roma with their life? What are the determinants of the satisfaction with life? The research results drawn from the research samples in Romania and Hungary are shown in the tables below.

31

Table 1. Satisfaction with life at the Hungarian Roma

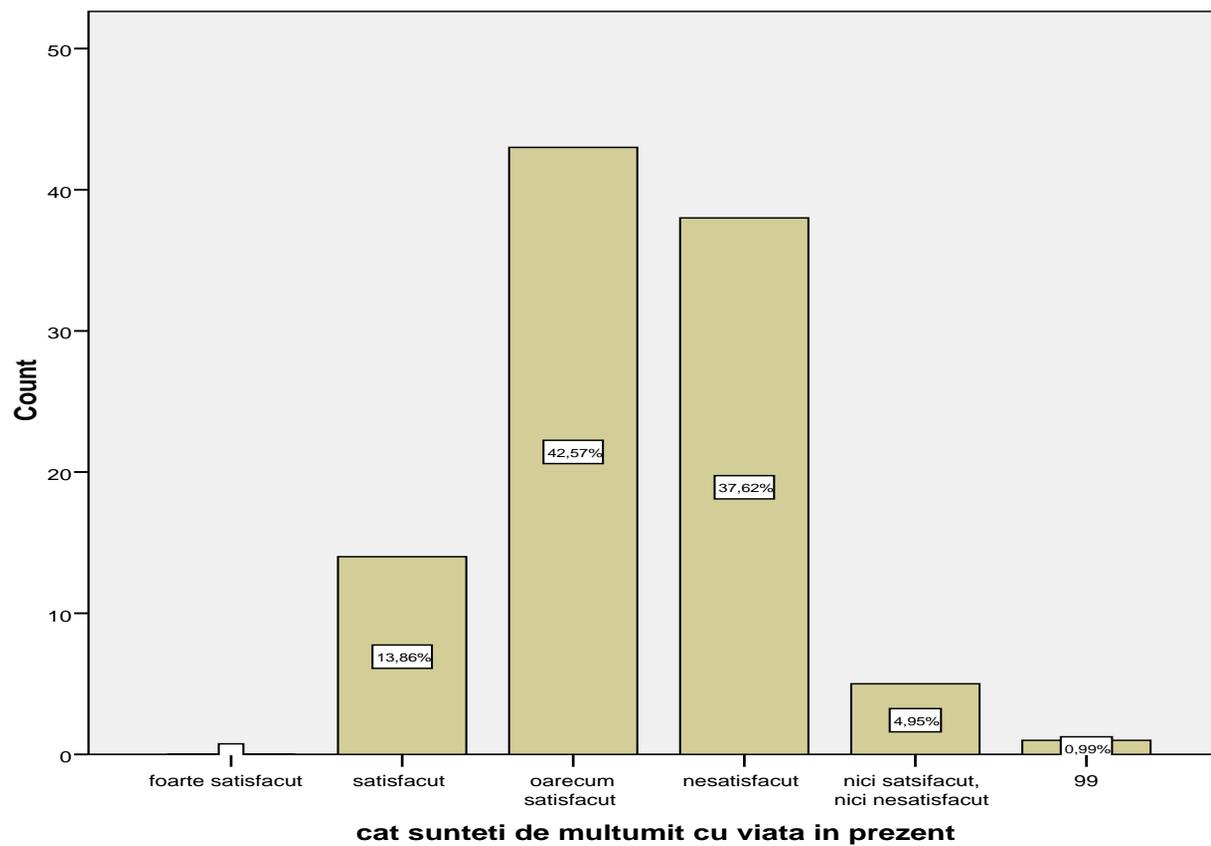
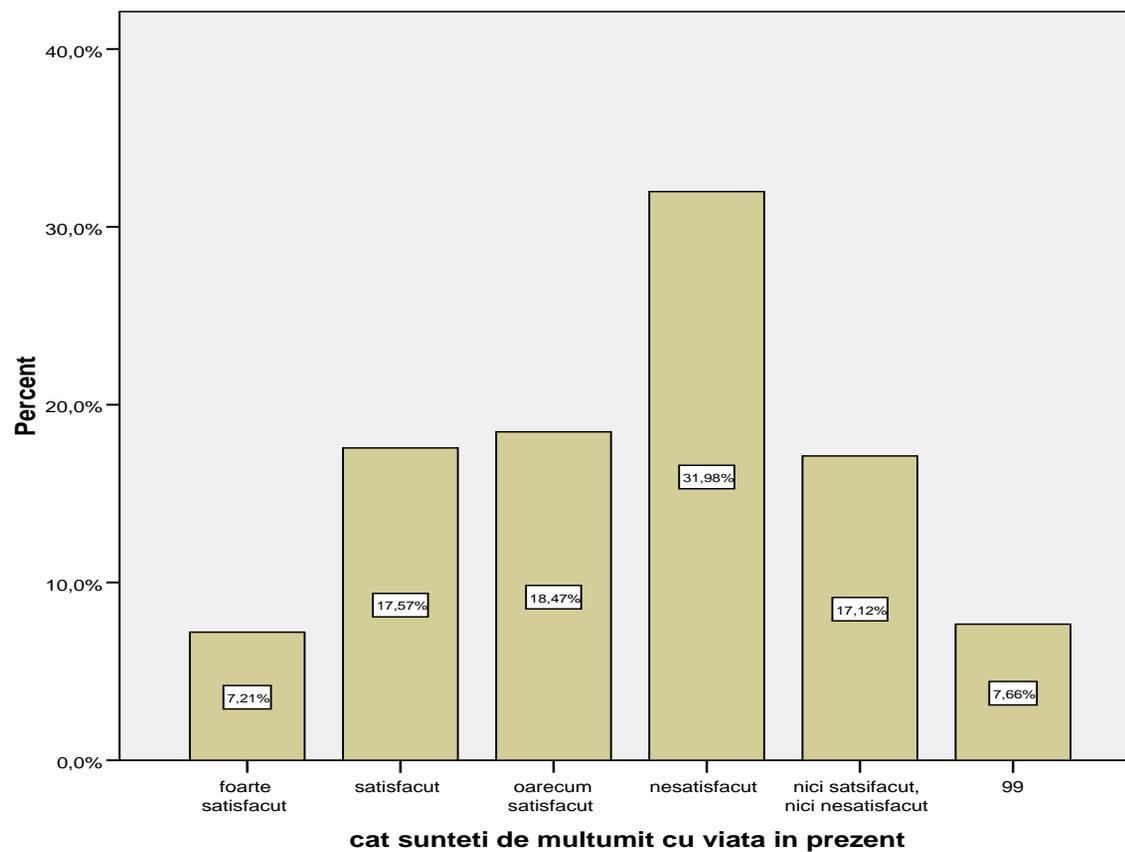


Table 2. Satisfaction with life at the Romanian Roma

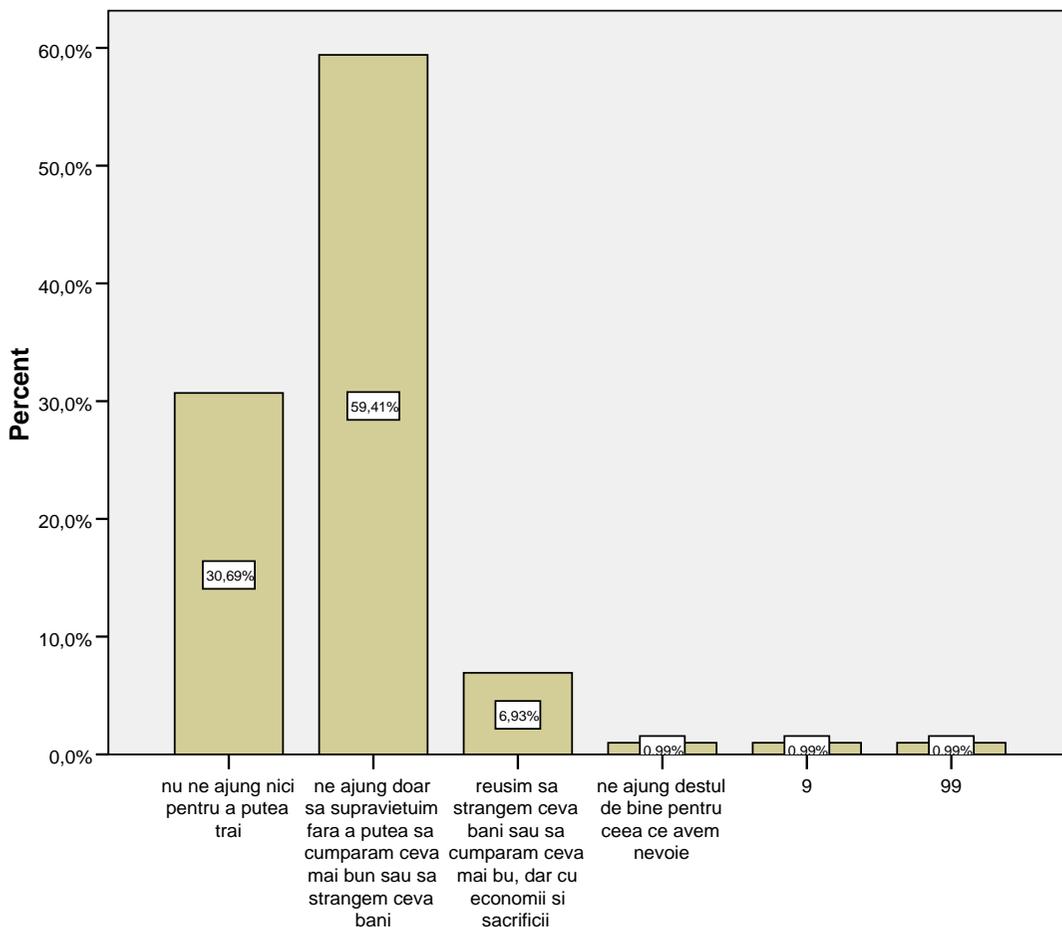


We can see in the two tables that on the one hand, the share of very satisfied in Romania is higher (7. 21% vs 0%) and also the percentage of those dissatisfied is lower (31. 98% compared to 37. 62%). Is this happening because of a higher quality of life or the effect of other factors? We will give an answer along the way.

1.5.2 The economic vulnerability of the Roma

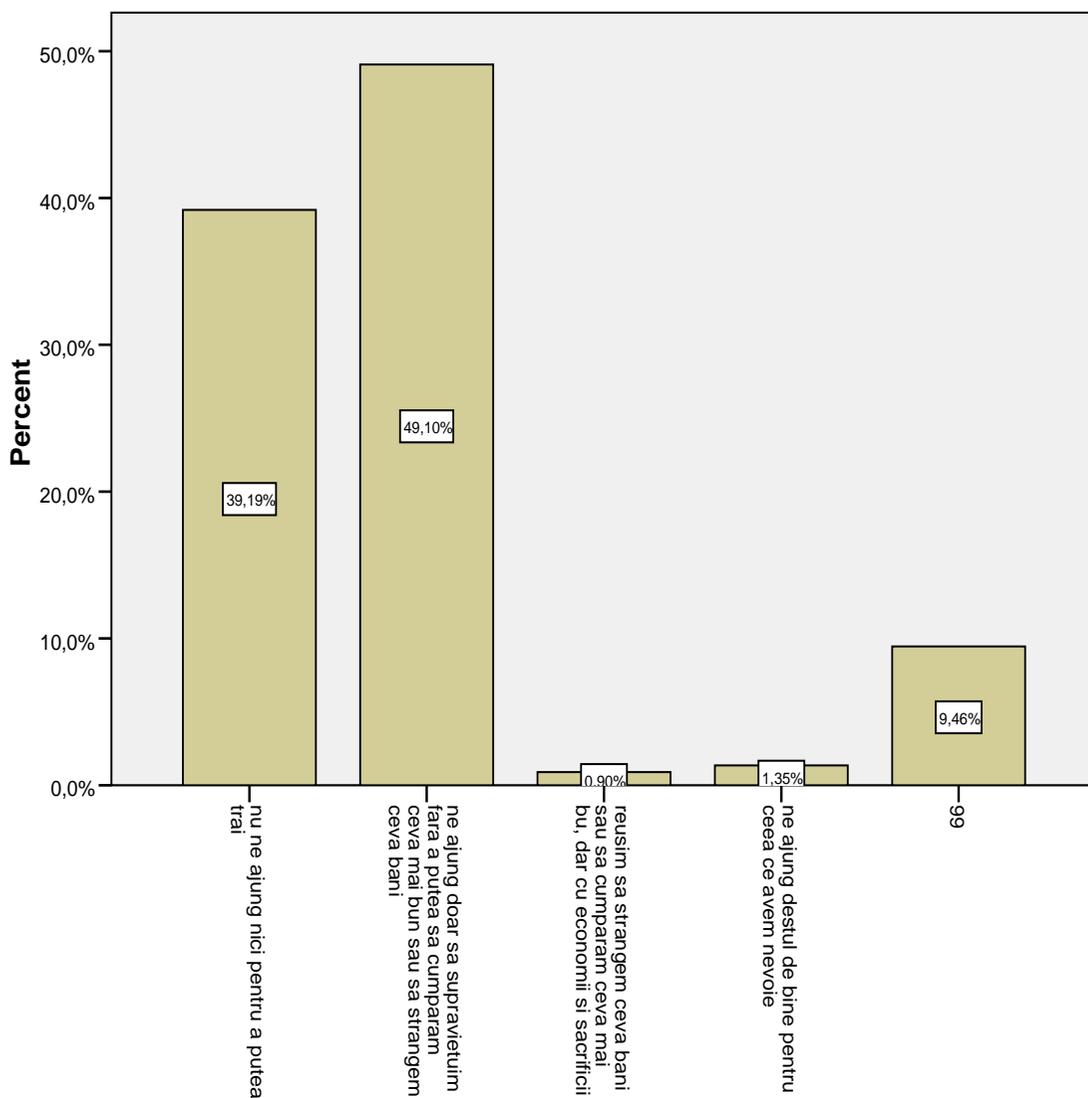
A first step we need to make is to see the perception of the Roma on poverty.

Table 3. Income poverty (Roma in Hungary)



Gândindu-va la veniturile totale ale familiei, puteti spune ca va ajung sau nu?

Table 4. Income poverty (Roma in Romania)



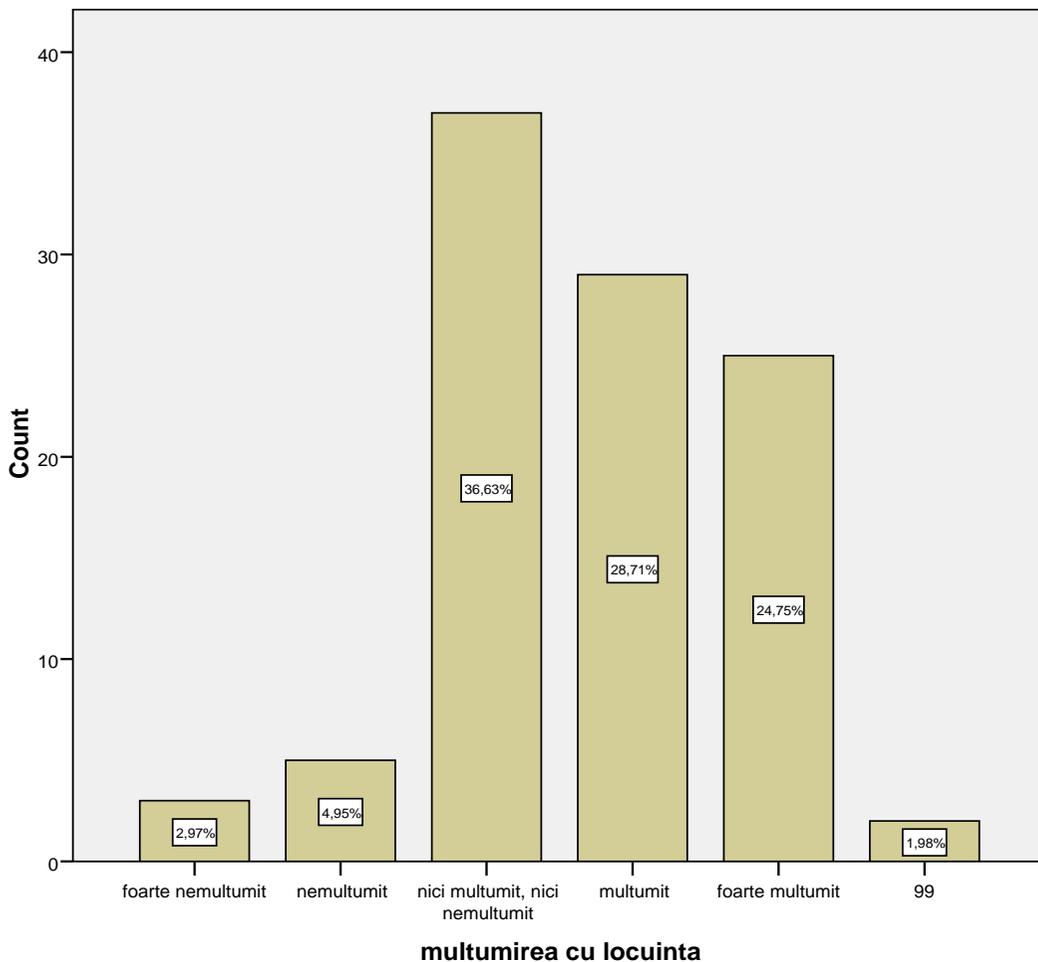
Cândindu va la veniturile totale ale familiei puteti spune ce va ajung sau

Comparing the two tables, we can see that the Roma in both countries perceive themselves poor and very poor. If we observe the first two items, the percentages are quit similar in the two countries (about 88. 29% in Romania compared to 90% in Hungary). If we take items 3 and 4 however, the situation is more favorable for the Roma in Hungary (8%) compared to 2. 25% for the Roma in Romania.

1.5.3. Housing conditions

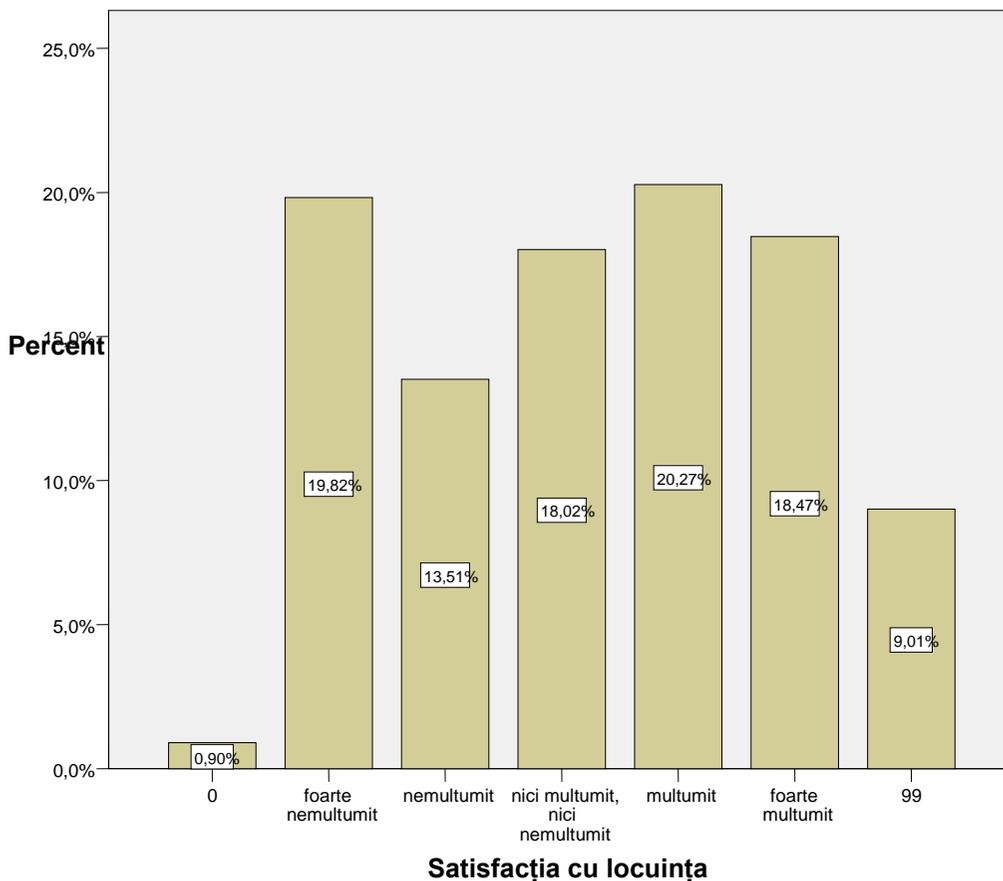
A first step towards interpreting the above mentioned surprising situation is to inquire about the living conditions in the two countries. How satisfied are the Roma with their home? Here are the data from Hungary.

Table. 5 Satisfaction with housing at Roma in Hungary



A question to be raised is how the satisfaction with life is associated with the satisfaction with housing. The regression model applied to the data from Hungary proves a significant combination, but not a strong link between the two variables, as will appear in the data presented in the annex 1.

Table 6. Satisfaction with housing at Roma in Romania



We can notice in the two graphics, on the one hand, that the percentage of satisfied and very satisfied is higher in Hungary (26. 71% and 24. 79%) compared to Romania (18. 47% and 20. 27%, and secondly that the percentage of dissatisfied and very dissatisfied is much higher in Romania (19. 82% and 13. 5%) compared with those in Hungary (4. 95%, respectively 2. 97%). Perhaps this is due to issues such as housing density, housing size, number of rooms and the materials the houses are made of.

One of our assumptions is related to the direct link between satisfaction with life and satisfaction with housing. Making a regression analysis on the data from Romania, we can see that the association between the two variables is significant and,

as shown by the data in the table below, the correlation between the two variables is over 0.79, so it is quite strong. The comparison between the two regression analysis (the Romanian and Hungarian cases) shows a stronger association between the data from Romania than in those from Hungary.

In most studies the income seems to be the best predictor of satisfaction with life, so it would be interesting to have a look at the results of the regression model between the income and the satisfaction with life(annex3).The correlation coefficient ($r=0,99$) proves a very strong link between these two variables.On the other hand the regression model between the income and satisfaction with housing (a significant combination and a very strong connection)

proves that in the case of Hungary, the income variable is a better predictor of life satisfaction than the satisfaction with housing(annex5).

Applying the same regression analysis for Romania, we notice a significant association and a stronger link (although the values are very close) than that between satisfaction with housing and satisfaction with life. The differences that arise between the situation in Romania and Hungary are likely due to differences in income between the Roma in the two countries, but also to the way the Roma minority relates to their neighbors. The data presented in this paper show us that the Roma in Romania live in neighborhoods with Roma majority, while the Roma in Hungary live in ethnically rather mixed areas.

Further we proceeded to test the link between housing and income satisfaction in Romania (annex 6). The data demonstrate a significant association between the two variables and also a strong connection. This assumption/hypothesis is valid for Hungary. The data demonstrate a significant association between the two variables and also a strong connection, in the case of Romania. So, this hypothesis is valid for Romania, too. We note in the case of Romania a stronger value of the correlation coefficient, but the difference from the coefficient of Hungary is too small (0.813 vs. 0.701) for giving rise to any interpretation. An important item in many inquiries about housing in poor areas is the state of dwelling ownership.

Table. 7 State of ownership of dwelling (Roma in Hungary)

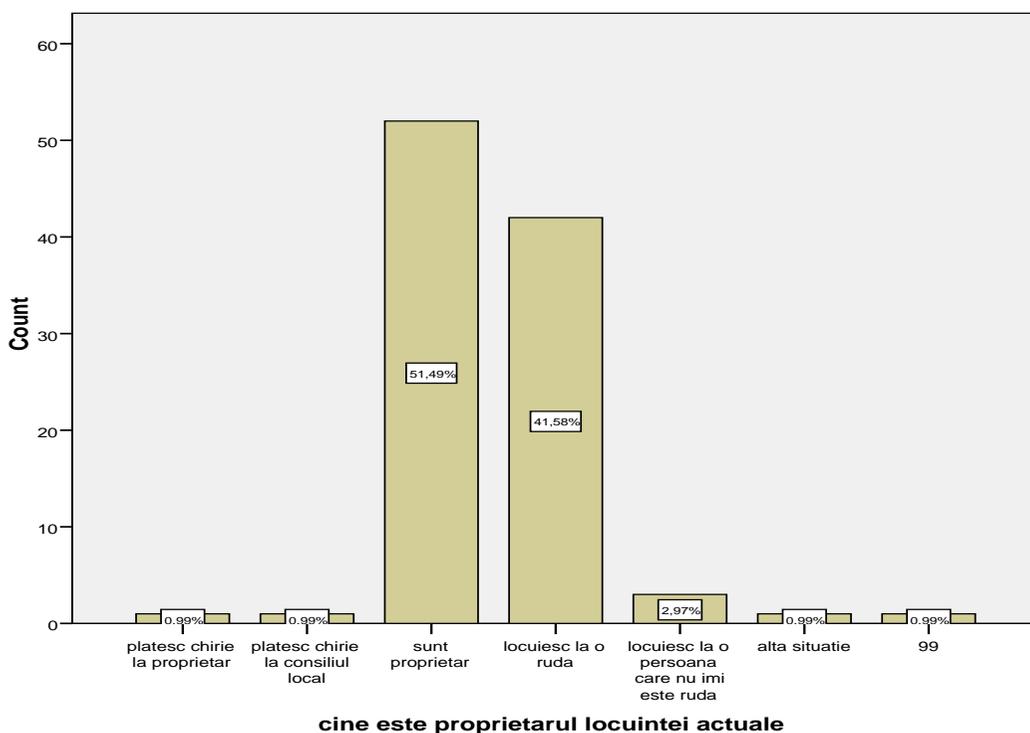
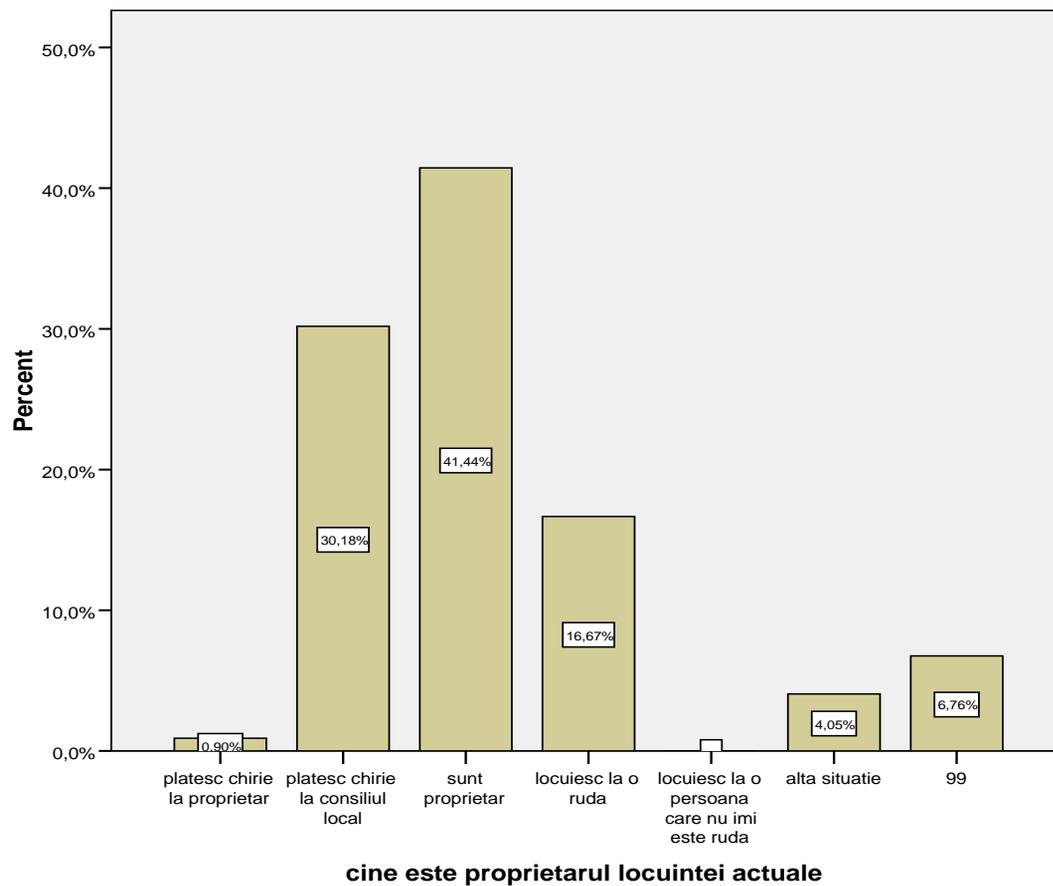


Table 8 State of ownership of dwelling (Roma in Romania)



When comparing the two situations, we can notice some aspects. First, in Romania there are several cases in which they pay rent to the City Council (30. 18%) compared to a very small percentage, 0. 99% in Hungary. The percentage of those who are owners is more favorable for Hungary, 51. 49% compared to 41. 44% in Romania, while in Hungary there are many more cases when the family lives at a relative, 41. 58%, and when the family lives at persons who are not relatives, 2.97%, compared to Roma in Romania (16. 67% and 0%).

Table 9. The materials the houses of the Roma are made of (in Hungary)

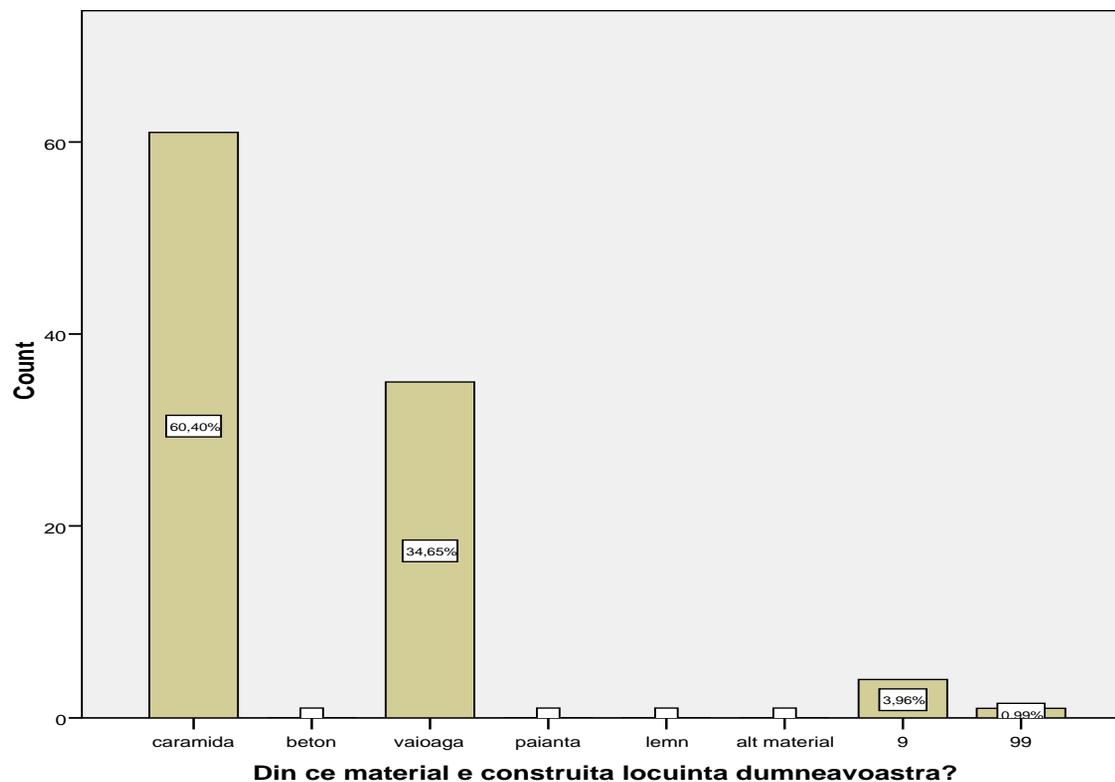
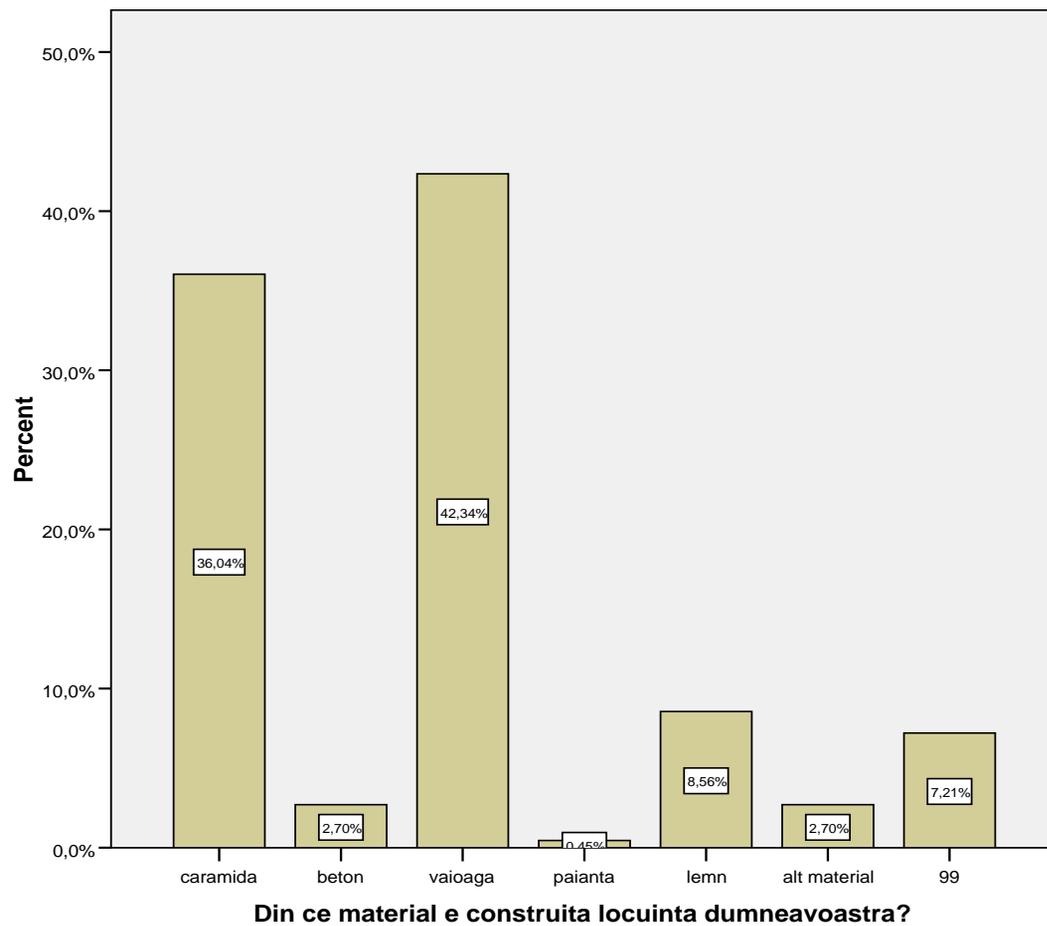


Table 10. The materials the houses of the Roma are made of (in Romania)



We can see in the two graphs that the Roma in Hungary have more modern houses, built mostly of brick (60.40%) and a smaller proportion of adobe (34.65%), while the dwellings of the Bihor County Roma are mainly made of adobe (42.34%), brick (36.04%), but also other materials (wood-8.56%, concrete 2.7%, half-timber work 0.45%).

Table. 11 How many people live in your home? (Roma in Hungary)

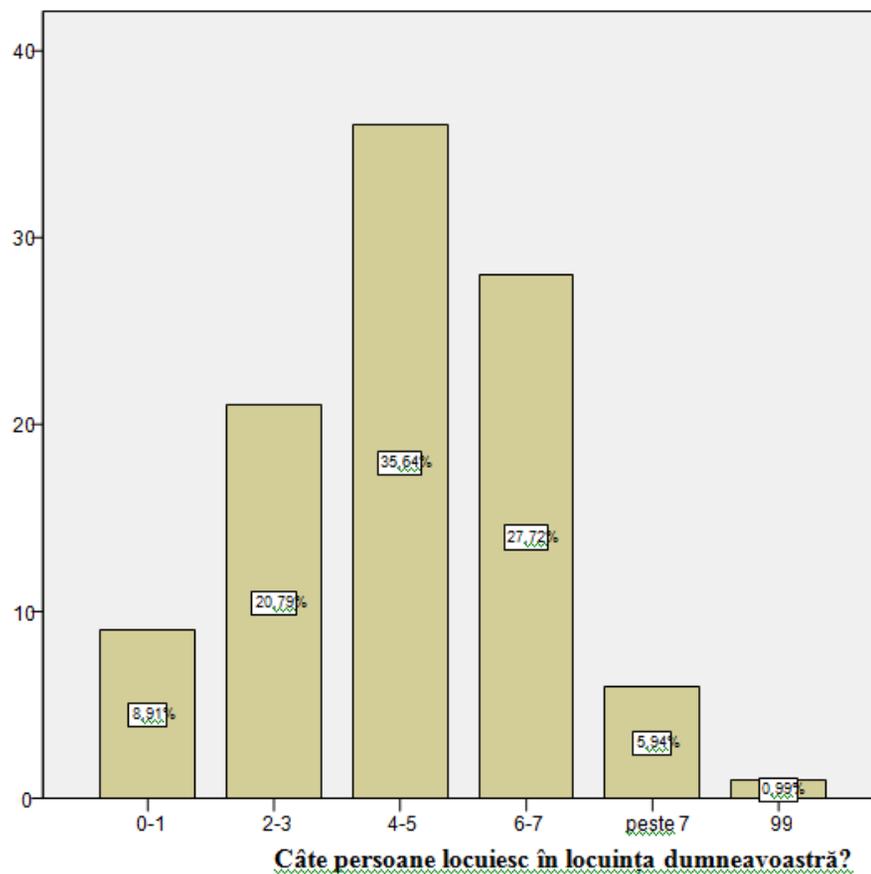
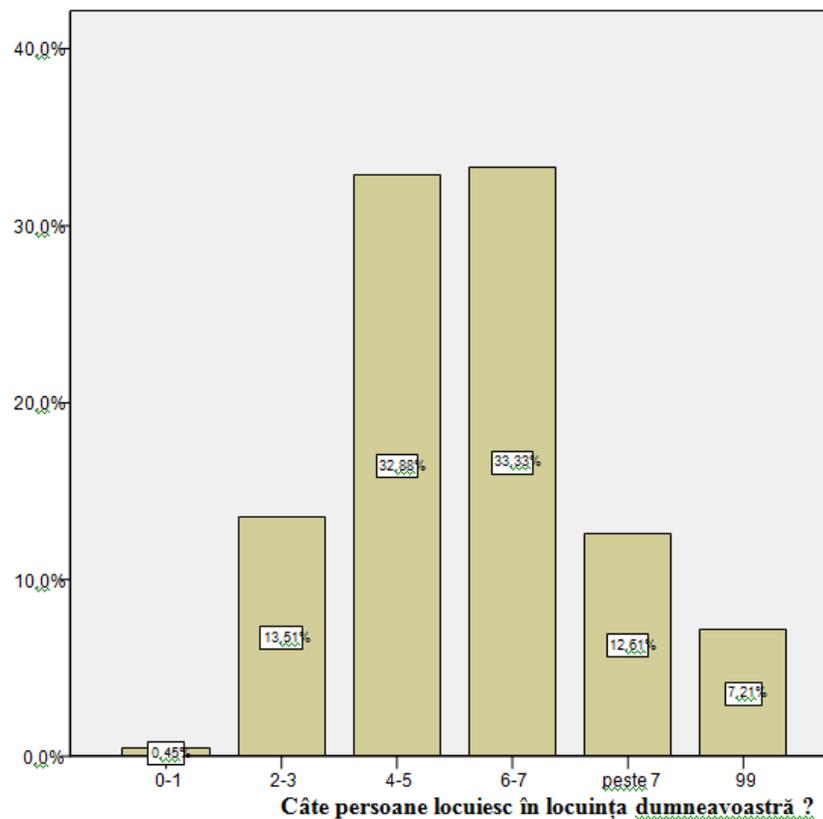


Table 12. How many people live in your home? (Roma in Romania)



We can notice in the two tables that housing density is higher in Romania than in Hungary, as in the case of 6-7 or more than 7 persons in the household, the share of cases in Romania (33.33% and 12.61%) being higher than in Hungary (27.72% respectively 5.94%). On the other hand, for 1 or 2-3 persons in a house, the situation in Hungary is comparatively better (8.91% and 20.79%) than in Romania (0.45% respectively 13.5%). These data should be added to those on the dwelling area, number of rooms and facilities.

Table 13. The size of the Roma dwelling in Hungary

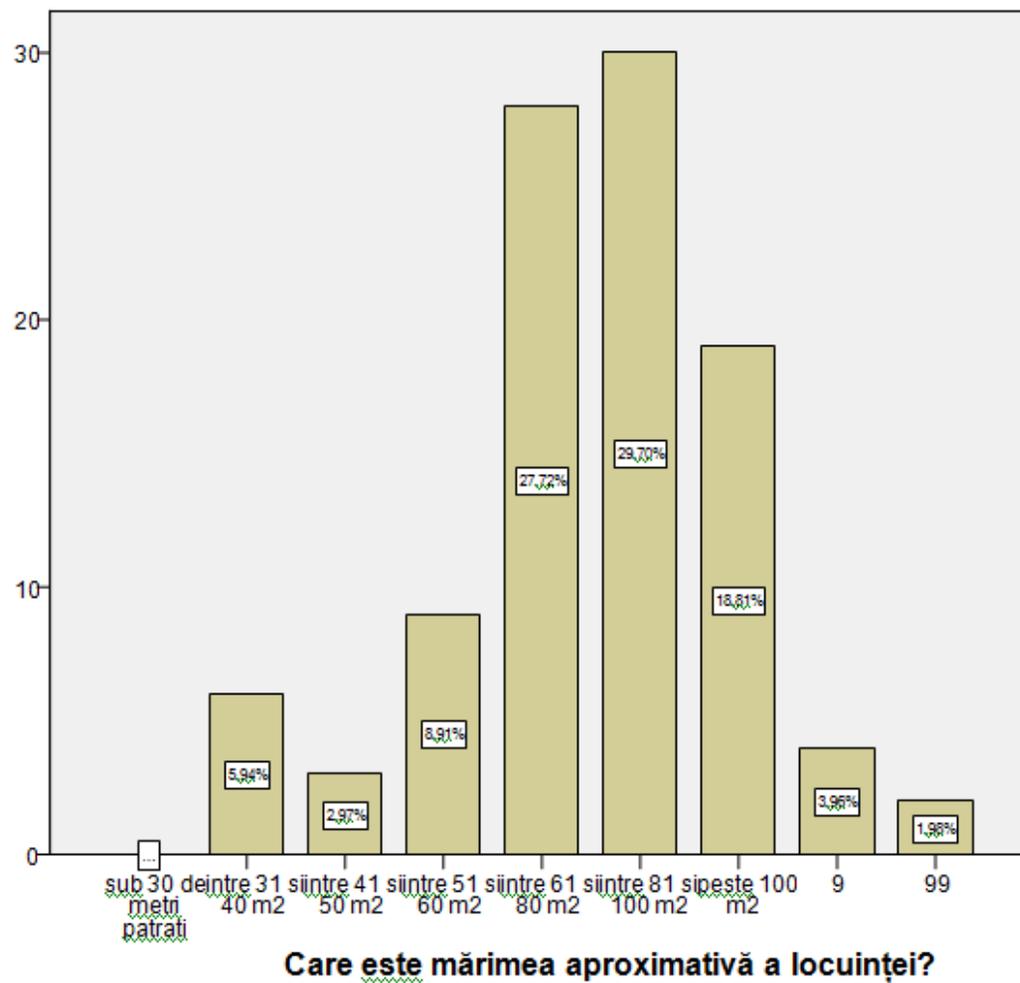
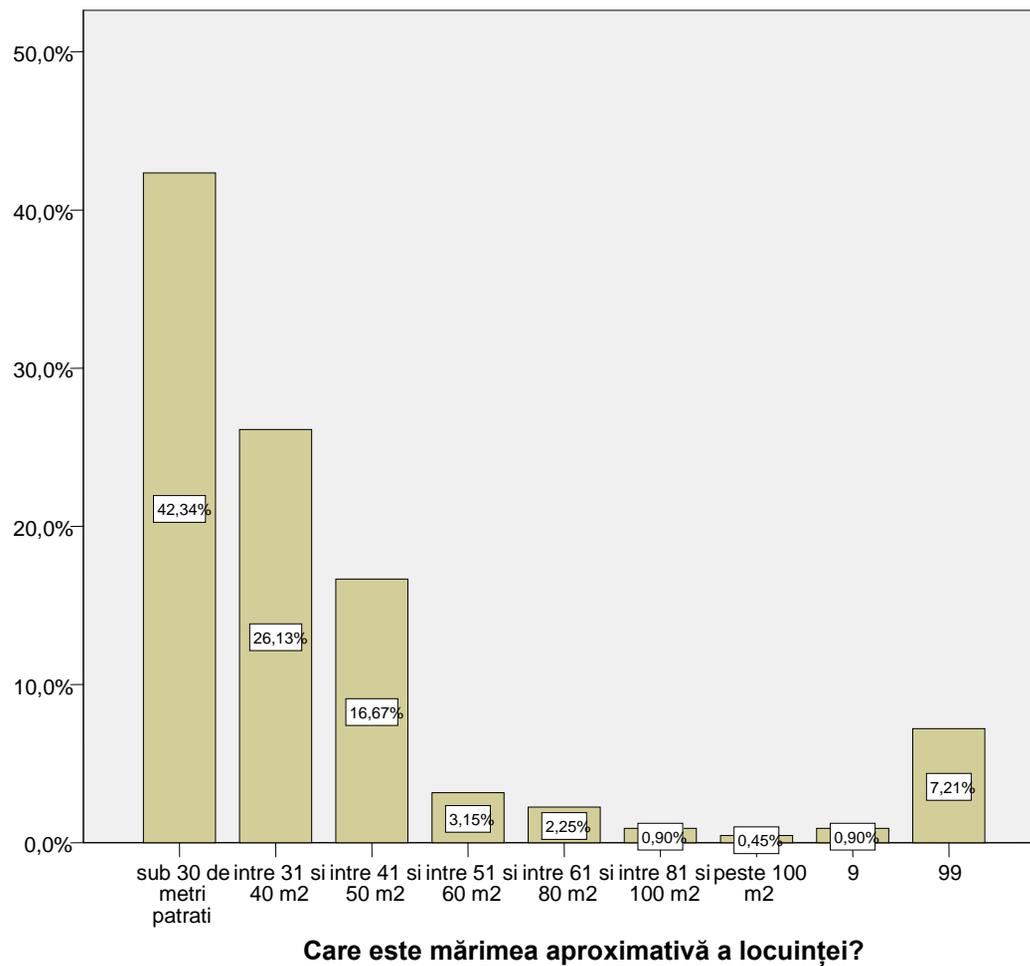


Table 14. The size of the Roma dwelling in Romania



We can notice in these two tables that while in Romania the housing size is mainly under 60 sq.m., the prevailing housing area is over 60 sq.m. in Hungary. It seems that the size of housing is a significant indicator of the gap which separates housing conditions and more generally the civilizational integration levels of the Roma living in the two countries.

Table 15. How many rooms does your dwelling have? (Hungarian Roma)

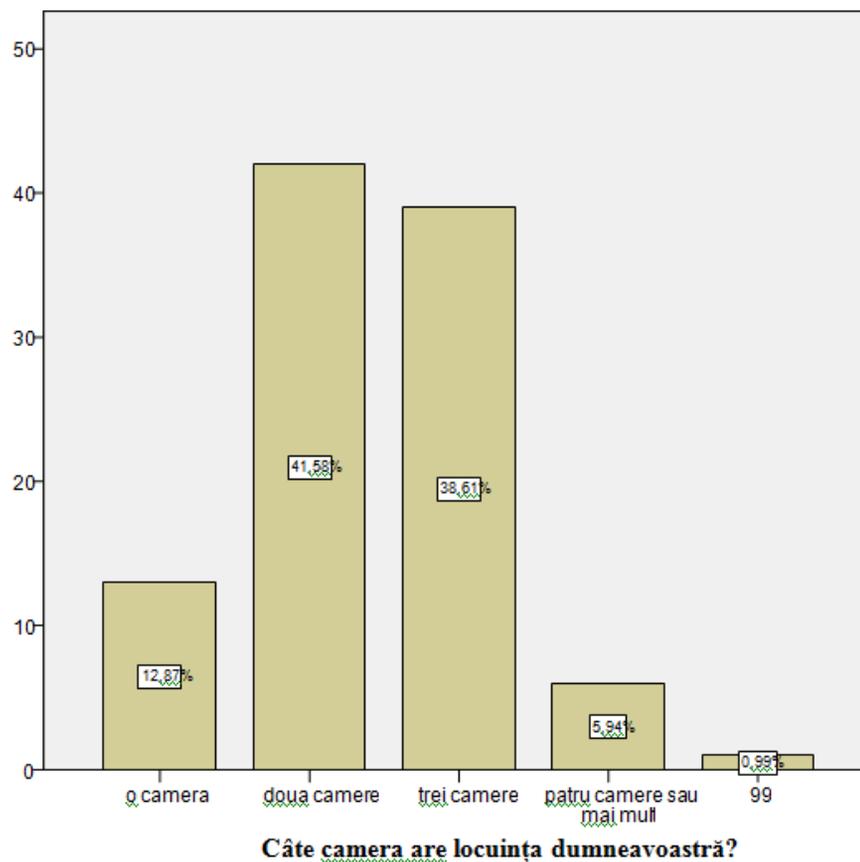
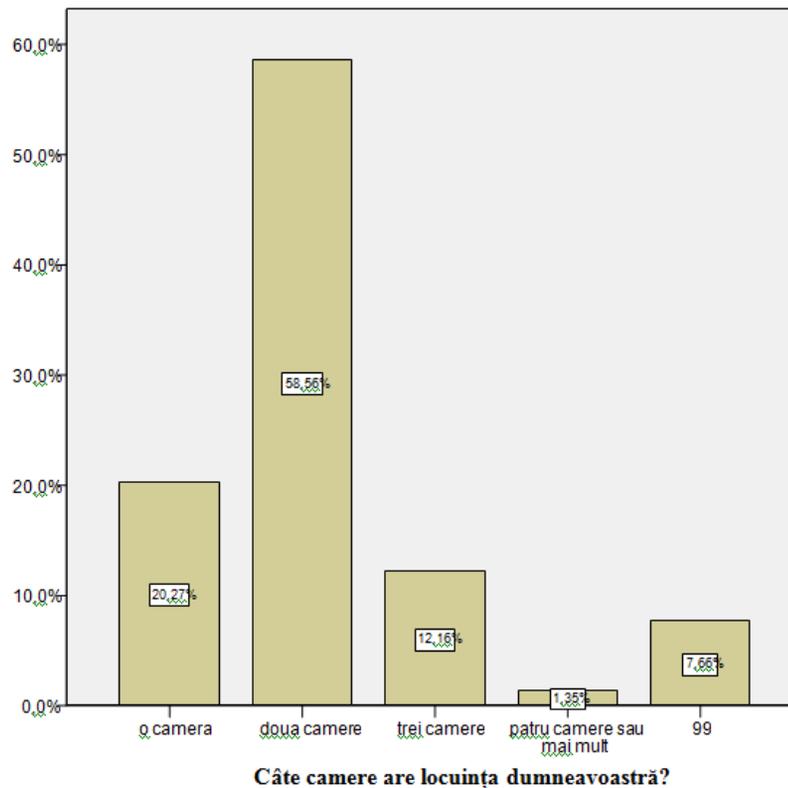


Table 16. How many rooms does your dwelling have? (Romanian Roma)



Again the difference is very high between the two samples. A share of 44.4% of Hungarian Roma live in houses with three rooms or more, while the corresponding percentage in the Romanian sample is only 13.4%. However, the situation is rather different in the case of houses with one or two rooms (79% of Roma in Romania and 64.4% in Hungary).

According to the results of regression analysis in both countries there is a significant link between the housing size and income and also between the number of persons in the dwelling and the income (annexes 7 to 10). This outcome denotes the frequent occurrence of

multiple disadvantaging factors (such as precarious living conditions, high number of family members living in small size dwellings and extremely low level of income).

Table 17. Dwellings with bathroom facilities (Hungarian Roma)

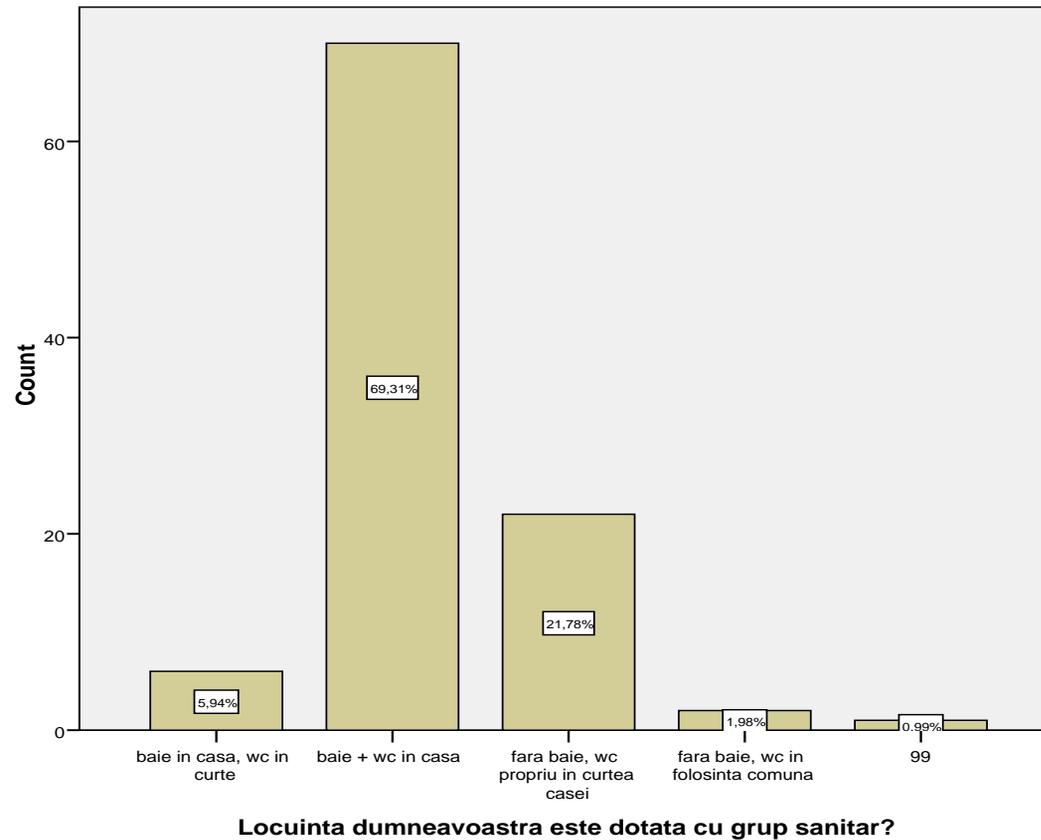
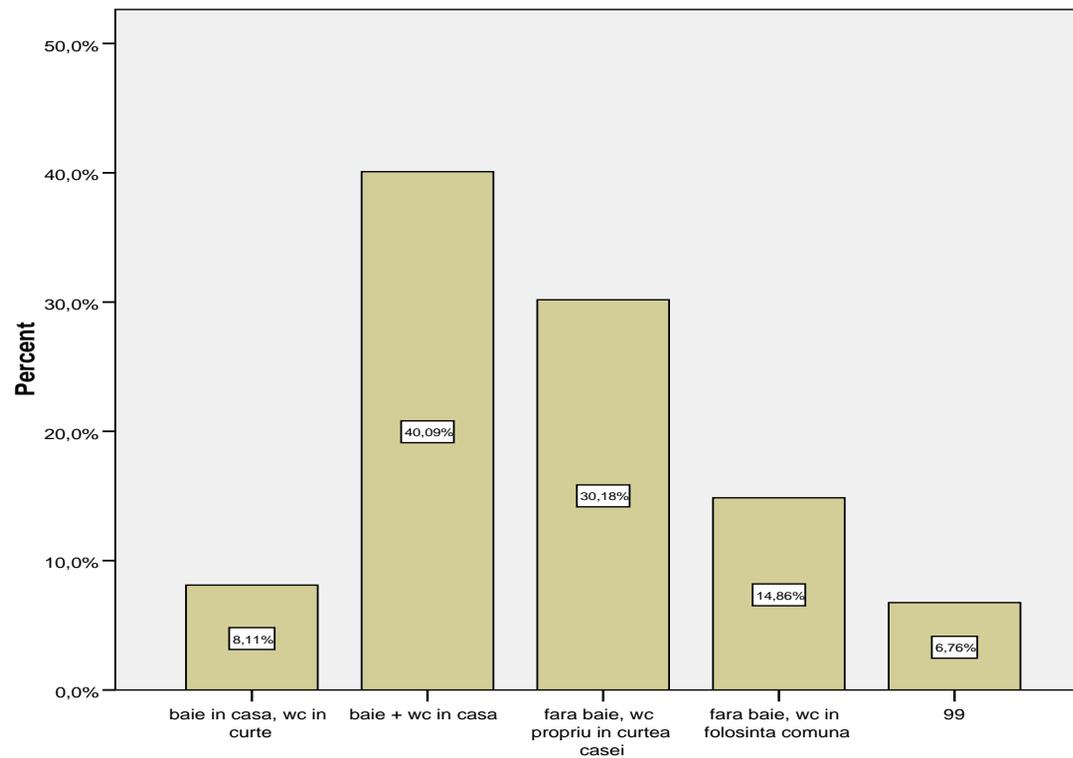


Table 18. Dwellings with bathroom facilities (Romanian Roma)



Locuinta dumneavoastra este dotata cu grup sanitar?

The two tables show very clearly that the Roma in Hungary have better living conditions than those from Romania. If we compare those with the best conditions, i.e. with bathroom and toilet in the house, the weights of the two samples are 69.31% in Hungary and 40.09% in Romania. If we compare instead those with the worst conditions, in other words those who do not have a bathroom in the house and a toilet in common usage, the corresponding values are 14.86% in Romania, respectively 1.99% in Hungary. Another important housing facility is the home kitchen. The following two tables illustrate the situation in the two cases.

Table 19. Kitchen in the house (Hungarian Roma)

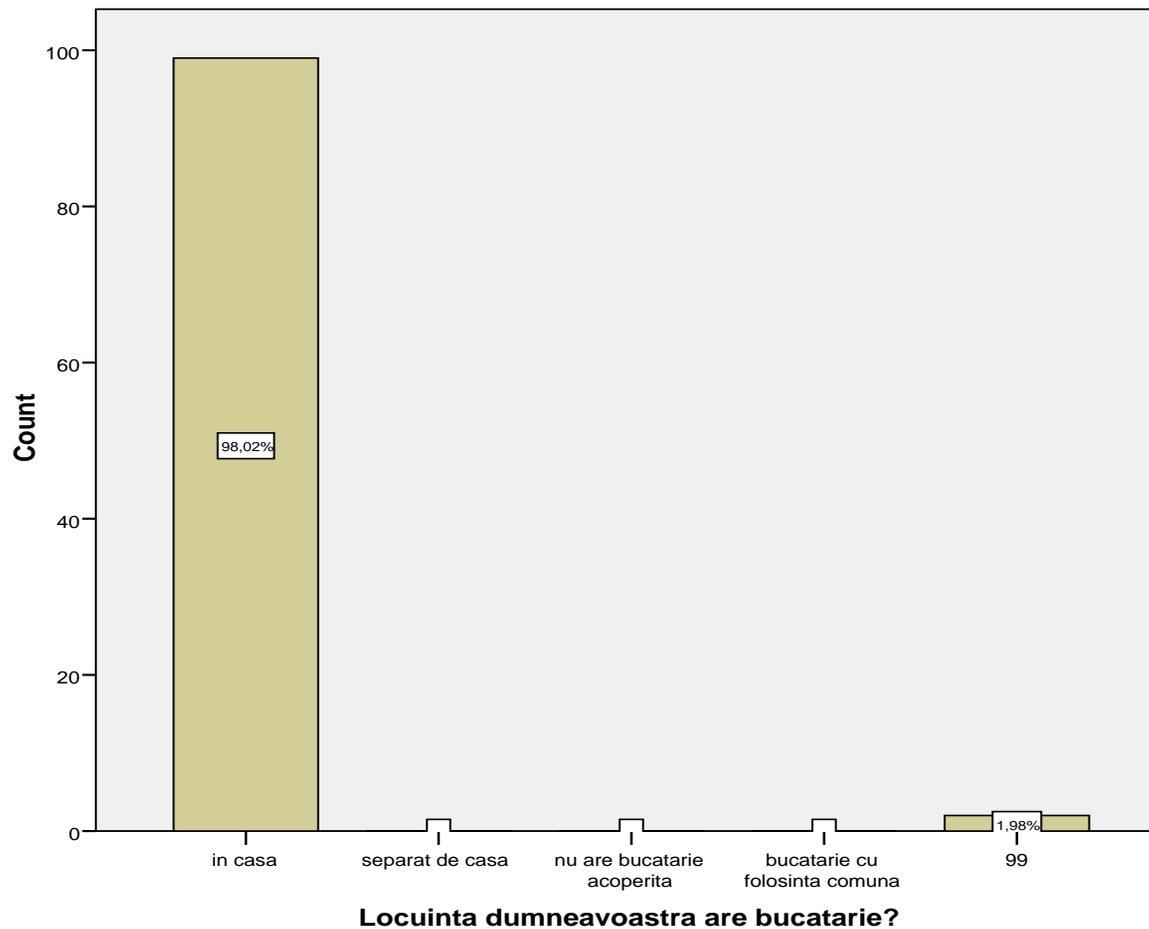
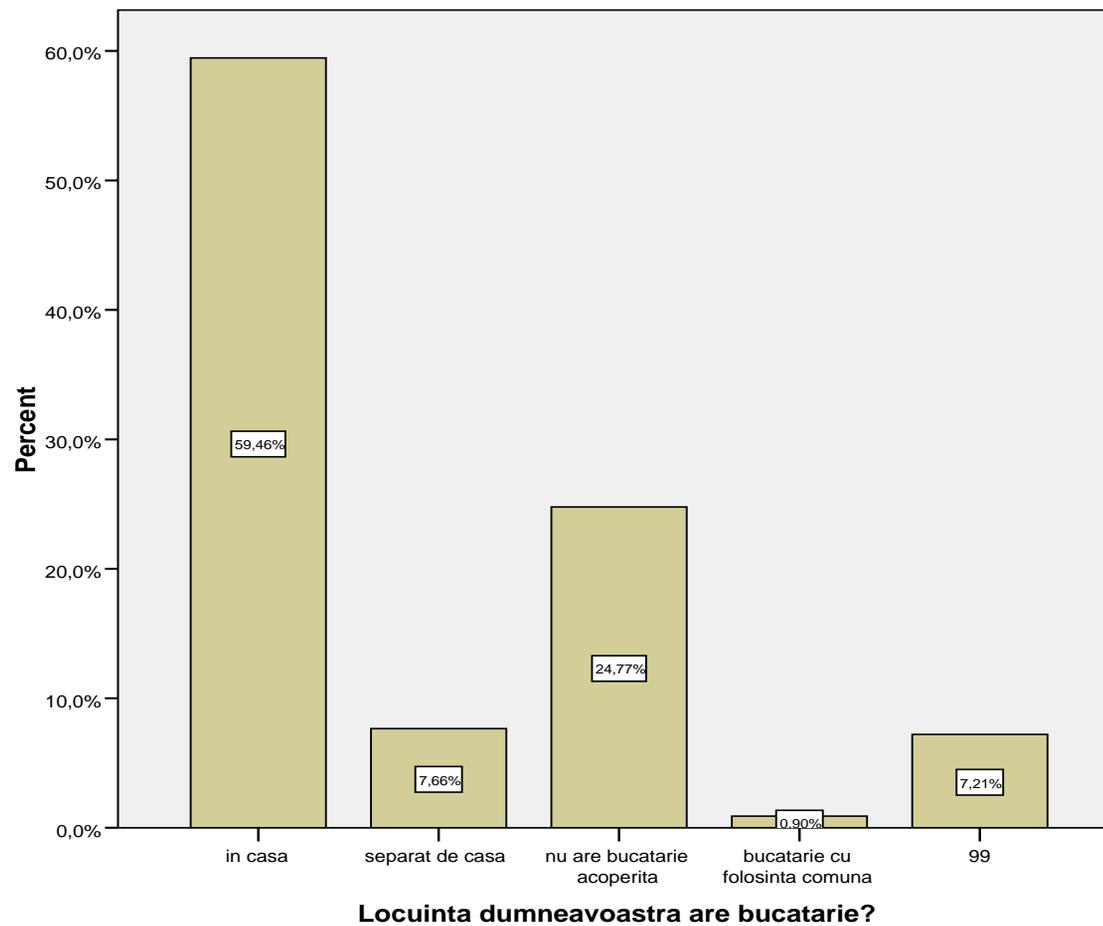


Table 20. Kitchen in the house (Romanian Roma)



Comparing the situation in the two countries, some important differences occur again. Thus, if 98.02% of Roma households in Hungary have a kitchen in the house, this is happening only in 59.46% of Roma in Romania. Instead we have here a percentage of 7.66% of cases in which the kitchen is separated from the house, 24.77% have a not covered kitchen and even a small percentage (0.90%) use common kitchen with other families in town.

Table 21. Is there current water in the household you actually live? (Roma in Hungary)

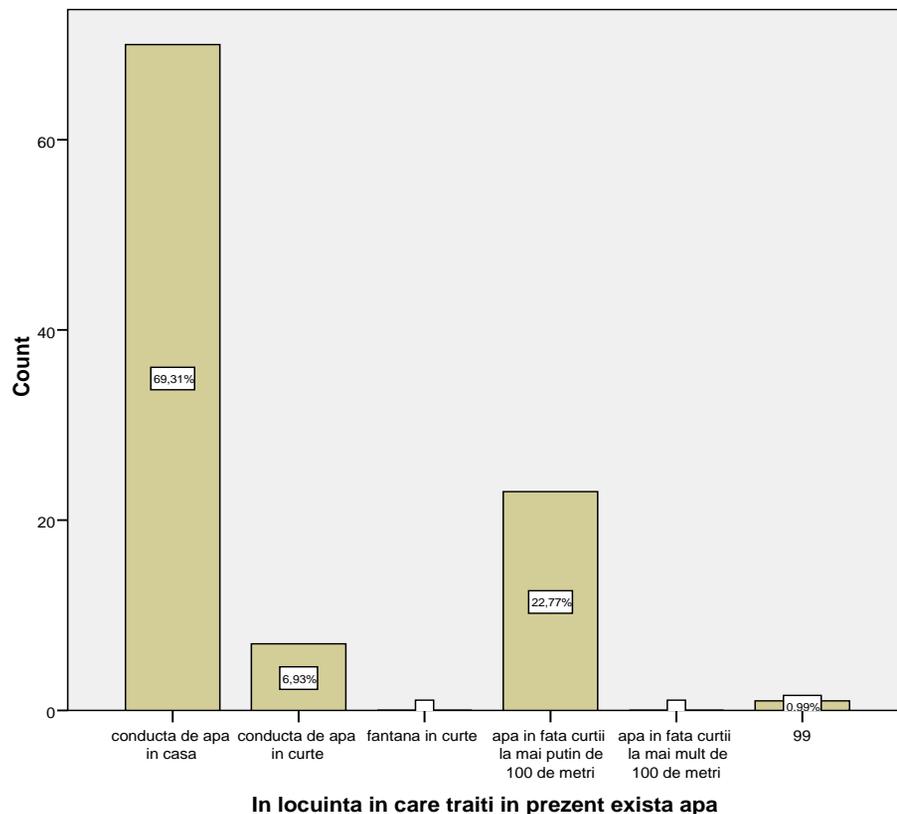
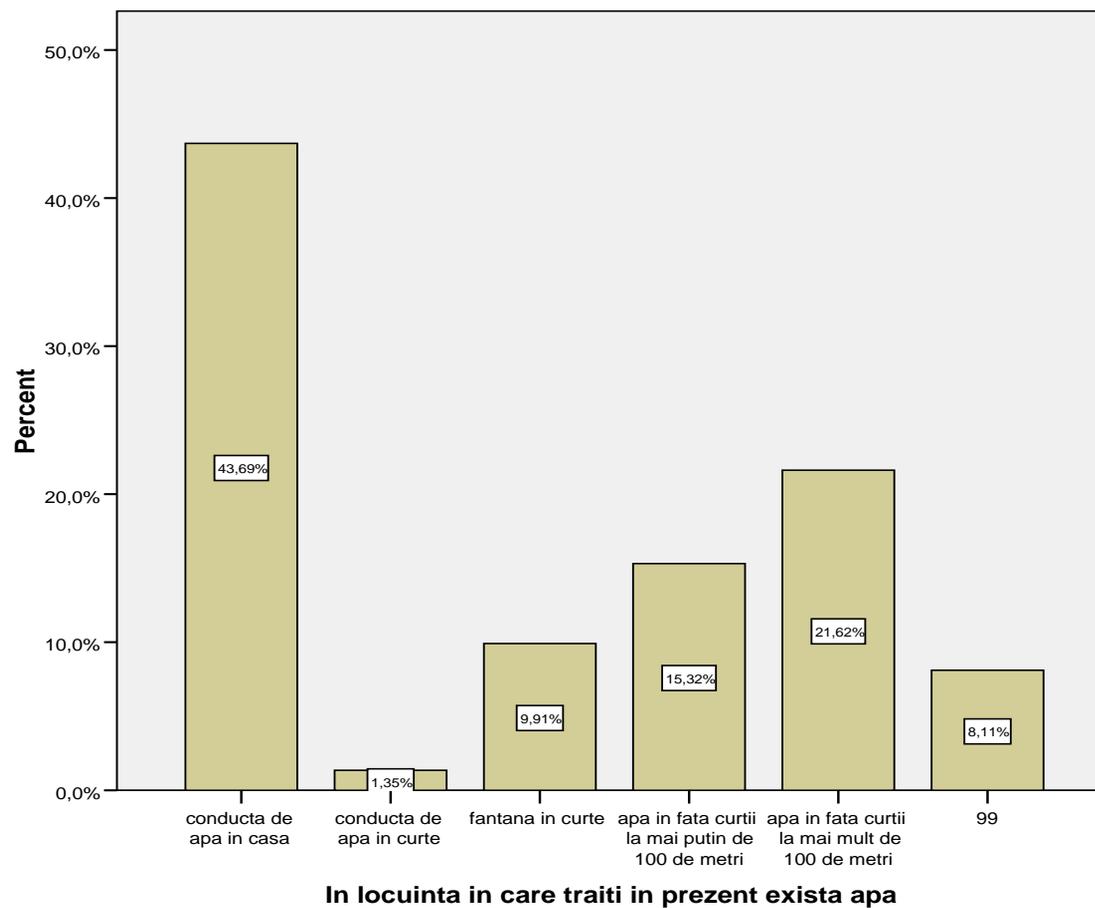


Table 22. Is there current water in the household you actually live? (Roma in Romania)

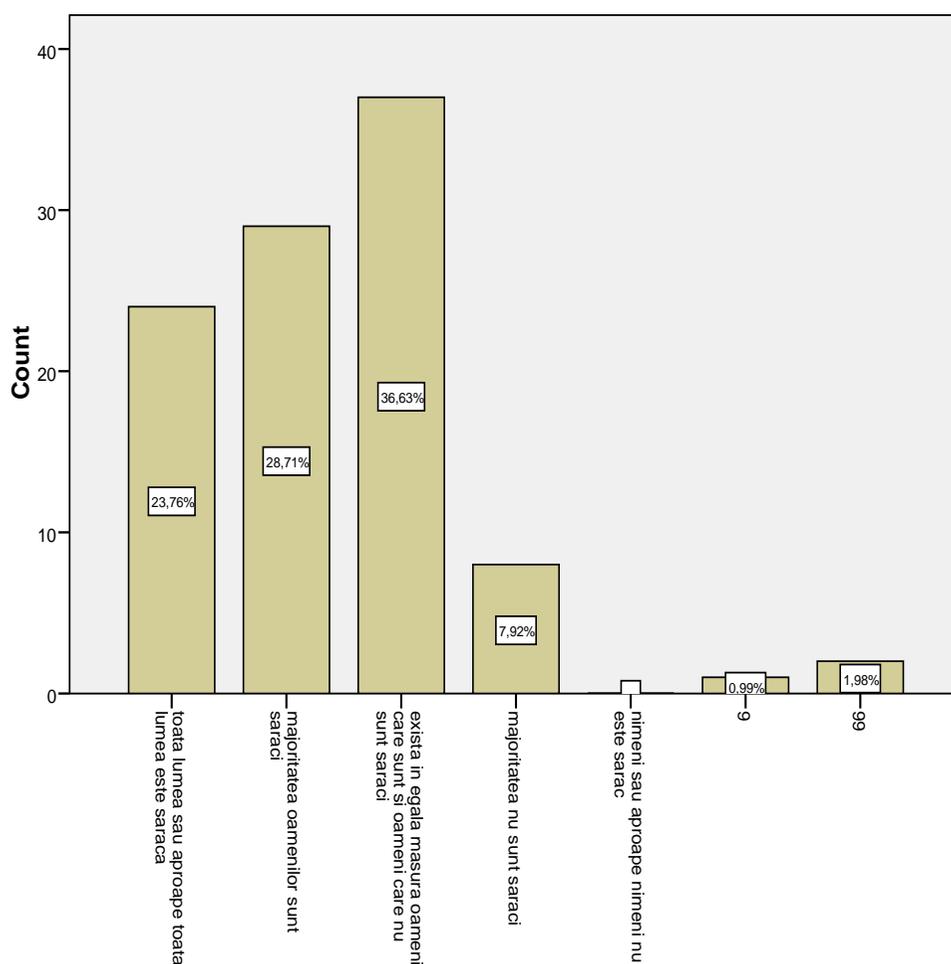


In terms of water use in the home, there are also significant differences between the two cases. Thus, in Hungary 69.31% compared to 43.69% in Romania are endowed with water pipe in the house. 9.91% have a fountain/well in the courtyard in Romania compared to zero percent in Hungary. 15.32% of the Roma households in the Romanian sample are using the water source in the front of the courtyard at less than 100 meters compared to 22.7% in the Hungarian sample. 21.62% of the Roma households in the Romanian sample have water in the front of the courtyard at more than 100 meters compared to 0% in the Hungarian sample. Again, big differences appear between the two cases.

1.5.5. The poverty of the neighborhood

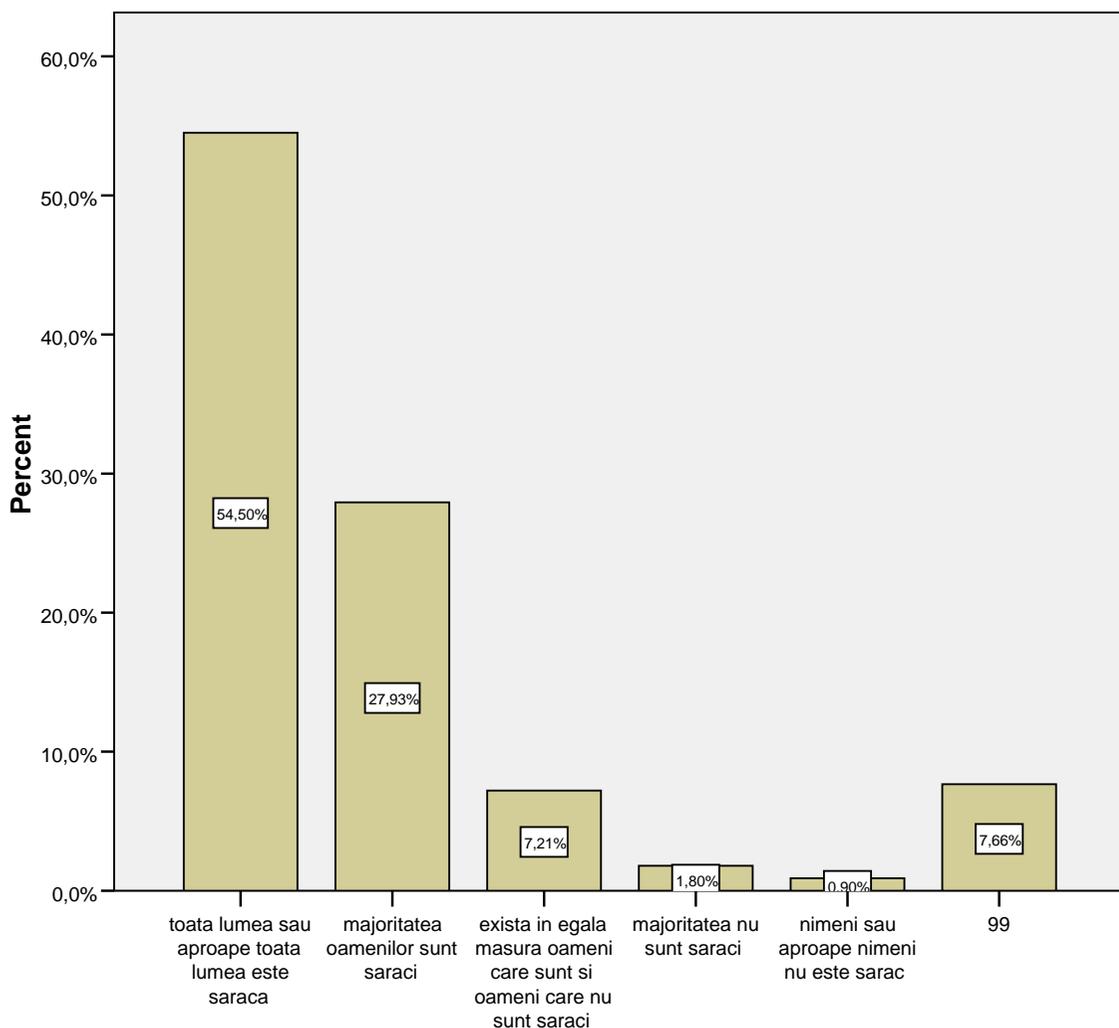
The Roma of the samples selected from the two countries live, in most cases, in poor neighborhoods compared with the majority. In our survey we inquire about the perception of the Roma on the neighborhoods in which their dwellings are.

Table 23. The perception of the poverty of the neighborhood (Hungarian Roma)



Care din urmatoarele afirmatii descrie cartierul in care locuiti in prezent?

Table 24. The perception of the poverty of the neighborhood (Romanian Roma)

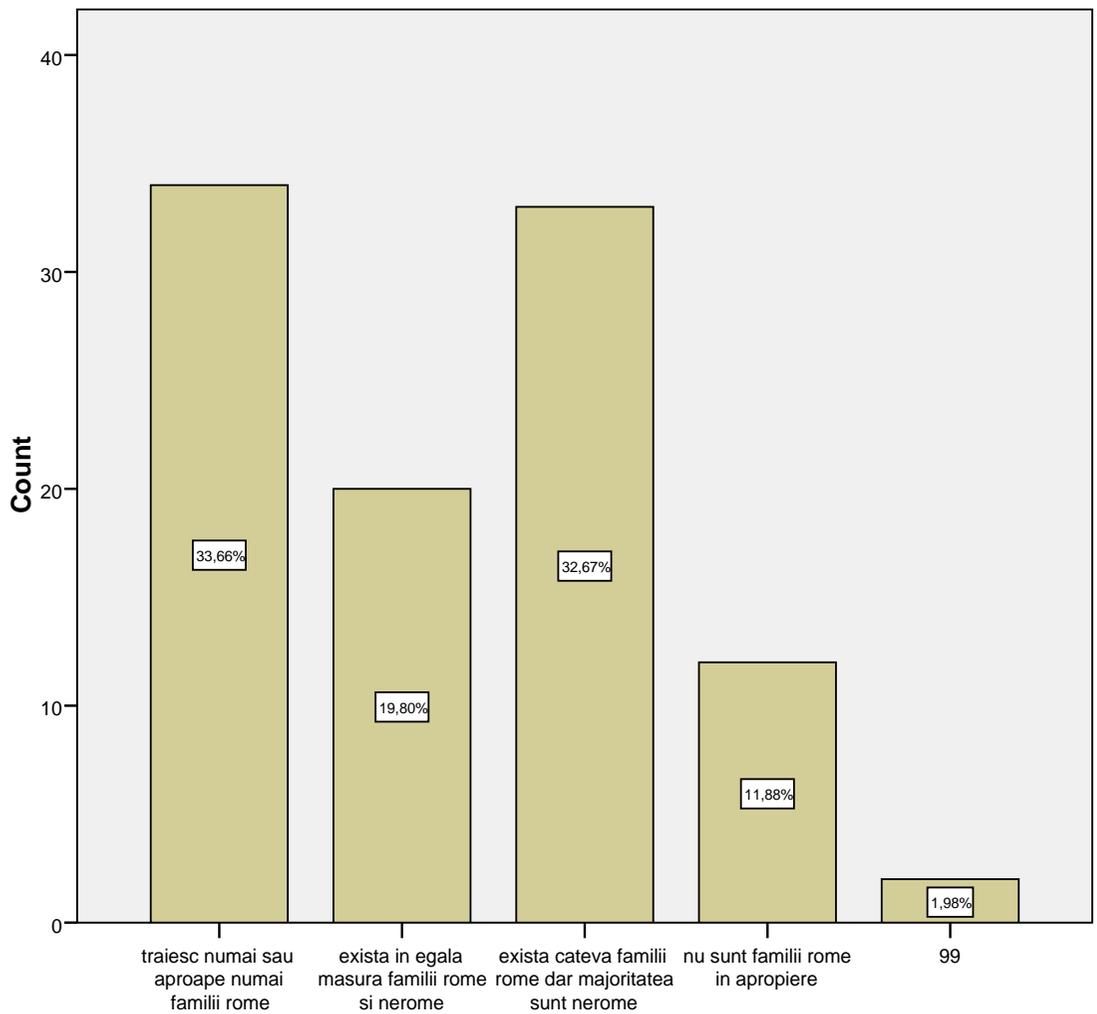


Care din urmatoarele afirmatii descrie cartierul in care locuiti in prezent?

It can be clearly seen that the perceived level of poverty is much higher in the Roma neighborhoods in Romania compared to that in Hungary. If we take the first two items (*Everybody or almost everybody is poor* and *Most of the people are poor*), their percentage is definitely higher for Romania, 82.4%, compared to 52.4% for Hungary. As far as item 4 is concerned (*Most of them are not poor*), we notice that the relevant percentage is lower in Romania (1.80%), than in Hungary(7.92%).

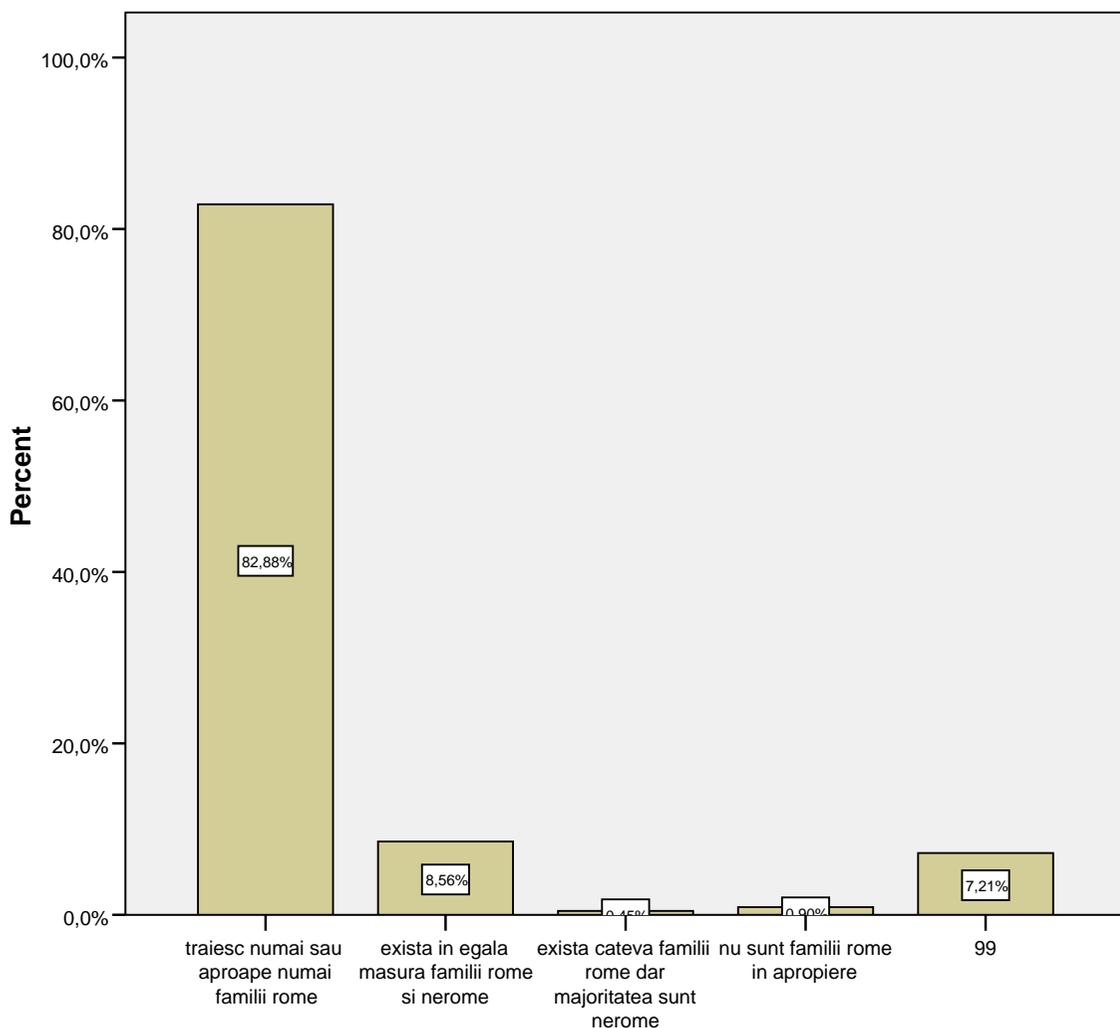
To have a better idea about the neighborhood of the Roma households, let's see who the neighbors of the subjects of our sample are (Roma or non-Roma neighbors).

Table 25. Who are the neighbors of the Roma? (Hungarian Roma)



Ce persoane traiesc in zona din vecinatatea casei dumneavoastra?

Table 26. Who are the neighbors of the Roma? (Romanian Roma)



Ce persoane traiesc in zona din vecinatatea casei dumneavoastra?

Although the localities were selected by Romanian and Hungarian experts on the criterion of poverty and occurrence of social problems of the Roma communities, we can notice differences in the ethnic composition of the neighborhoods. In Romania, the Roma tend to live in compact areas with Roma majority population (82.88%), while in Hungary the percentage is only 33.66%. However if we take items 3 and 4, the situation is clearly different for the two countries (44.55% in Hungary and 1.35% in Romania).

Table 27. Satisfaction with the neighborhood (Roma from Hungary)

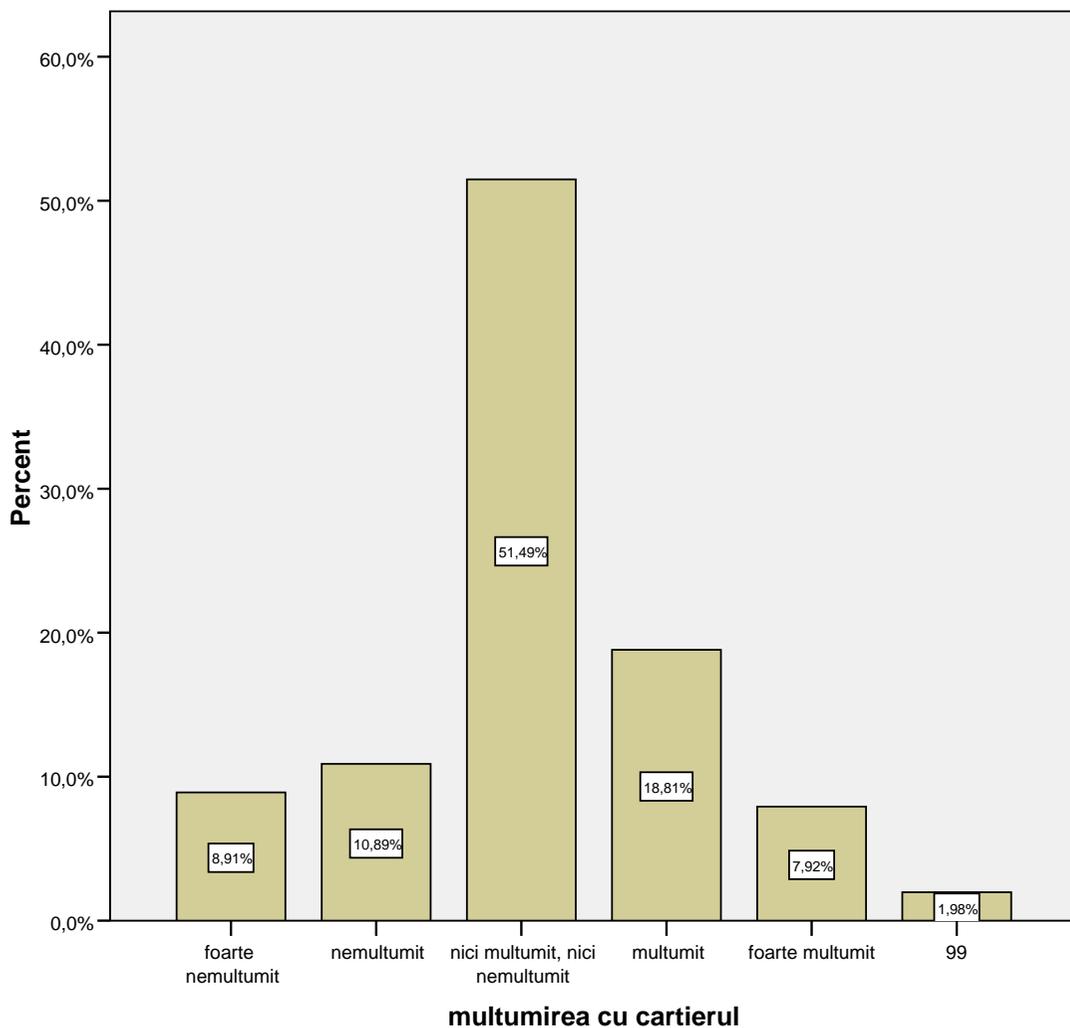
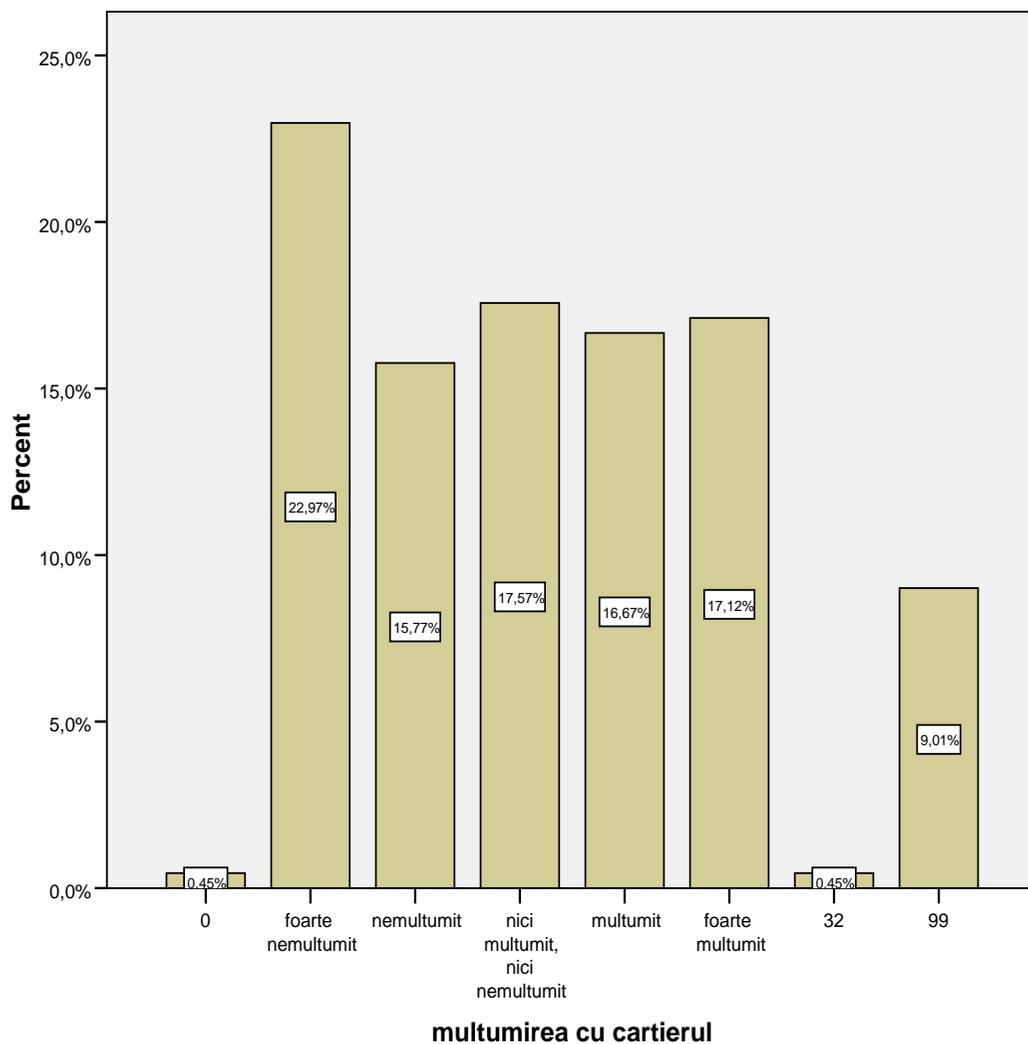


Table 28. Satisfaction with the neighborhood (Roma from Romania)



Concerning the satisfaction with the neighborhood, we notice again that the percentage of those very dissatisfied and dissatisfied is much higher(almost twice as high)in Romania than in Hungary (about 38.77% compared to almost 20%).It is interesting to notice that the percentage of those satisfied and very satisfied is greater in Romania (around 33.79% compared to almost 27%).

1.5. Conclusions

Analyzing the data on the Roma communities living in Romania and Hungary, we can find some significant differences. Even if Roma in Romania are more satisfied with their life, perhaps as the consequence of their more traditional life outlook, but also due to the ethnic composition of their neighbourhood, the Roma living in Hungary seem to be more satisfied with their dwellings. In terms of most objective indicators (ownership status, building materials, the number of rooms, the number of persons in the household, the hygiene, the possession of bathroom, toilet, kitchen, heating), Roma in Hungary are living in comparatively better conditions.

In contrast with their co-ethnics from Romania, Hungarian Roma live in neighborhoods that include both Roma and non-Roma, an aspect that has a great importance in their integration into society. Although according to Michael Stewart they resisted assimilation during socialism, our data demonstrate that today they seem to be much closer to the civilizational level of the larger society than ever before. It is worth to mention that they define themselves mostly as Hungarian Roma („magyar cigany”), unlike Roma from Romania, who mainly identify with their traditional community belonging (neamuri). The higher level of integration of Roma in Hungary is also proved by the attachment of most of them to the mainstream churches, while in case of Romania the influence of Neo-Protestant religious communities is much higher among the Roma population.

One indicator of integration is the one related to housing quality. From this point of view too, Roma in Hungary are socially more integrated than the Roma in Romania. Their dwellings indicate a serious lag compared both to the Roma in Hungary, but also to the majority group. Roma in Romania seem to be much more traditional if we analyze all these indicators of housing quality.

In terms of differences between localities, they are more pronounced in Romania,

where, according to our data, the community of Osorhei seems to be the poorest, having worse conditions not only compared to Oradea, but also to Ineu de Cris. Relatively small differences can be noticed in Hungary, between the communities of Biharkeresztes and Told, may be due to geographical proximity and to the fact that Told is a rural community while Biharkeresztes became a town only recently, still having mostly semi-rural community features.

Housing is an important indicator of the quality of life, influencing the health status, the participation in education and perhaps to some extent also the level of integration into the formal economy. For the development of the quality of housing, a more active involvement of the Government and of the local authorities, as well as the involvement of NGOs and Roma leaders is needed, even if the home's quality primarily depends on the income level of each family, and that is a problem in each case.

It is true that the same issue depends also on the neighborhood. If Roma see that the neighbors are poor and do not make efforts to improve their living conditions, they are tempted to do the same. If instead their neighbours belong to another ethnic group and Roma see that they have higher living conditions, this may also be an incentive for Roma. This fact is influencing to a large extent the difference between housing conditions of Roma in Hungary compared with those from Romania. Roma in Romania live in compact areas with a high density of social problems and a serious shortage of modernity. Perhaps a solution would be that Roma in Romania live in ethnically mixed neighborhoods or areas. Roma in Romania are isolated, marginalized, segregated compared to other ethnic groups both in terms of housing, participation in education or integration into the formal economy. On the other hand, there is also a dissociating mechanism probably related to their traditional values.

Probably long-term solutions would be large-scale investments in educational and also social economy programs, which could promote a better integration into the formal economy and to the successful securing of sustainable sources of income leading to better housing and civilizational conditions as well.

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ANNEXES

Annex 1. Simple regression analysis between satisfaction with housing and satisfaction with life (for Hungary)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,696(a)	,485	,479	6,891

a Predictors: (Constant), Satisfaction with housing

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4419,361	1	4419,361	93,063	,000(a)
	Residual	4701,312	99	47,488		
	Total	9120,673	100			

a Predictors: (Constant), Satisfaction with housing

b Dependent Variable: how satisfied are you with your present life

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1,518	,743		2,042	,044
	Satisfaction with housing	,497	,051	,696	9,647	,000

a Dependent Variable: how satisfied are you with your present life

Annex 2. Simple regression analysis between satisfaction with housing and satisfaction with life (for Romania)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,795(a)	,632	,630	15,515

a Predictors: (Constant), Satisfaction with housing

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	90903,165	1	90903,165	377,662	,000(a)
	Residual	52954,006	220	240,700		
	Total	143857,171	221			

a Predictors: (Constant), Satisfaction with housing

b Dependent Variable: how satisfied are you with your present life

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2,118	1,131		1,872	,062
	Satisfaction with housing	,735	,038	,795	19,434	,000

a Dependent Variable: how satisfied are you with your present life

Annex 3. Simple regression model between income and satisfaction with life (for Hungary)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,990(a)	,981	,980	1,336

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8944,003	1	8944,003	5011,926	,000(a)
	Residual	176,670	99	1,785		
	Total	9120,673	100			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

b Dependent Variable: how satisfied are you with your present life

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1,549	,138		11,190	,000
	Thinking about the total family income, can you say that it is enough or not?	,974	,014	,990	70,795	,000

a Dependent Variable: how satisfied are you with your present life

Annex 4. Simple regression model between income and satisfaction with life (for Romania)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,829(a)	,688	,686	14,292

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	98920,358	1	98920,358	484,291	,000(a)
	Residual	44936,813	220	204,258		
	Total	143857,171	221			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

b Dependent Variable: how satisfied are you with your present life

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2,682	1,026		2,614	,010
	Thinking about the total family income, can you say that it is enough or not?	,740	,034	,829	22,007	,000

a Dependent Variable: how satisfied are you with your present life

Annex 5. Simple regression between income and satisfaction with housing (for Hungary)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,701(a)	,491	,486	9,596

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8791,698	1	8791,698	95,468	,000(a)
	Residual	9116,996	99	92,091		
	Total	17908,693	100			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?b
Dependent Variable: satisfaction with housing

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2,860	,994		2,876	,005
	Thinking about the total family income, can you say that it is enough or not?	,965	,099	,701	9,771	,000

a Dependent Variable: satisfaction with housing

Annex 6. Simple regression between income and satisfaction with housing (for Romania)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,813(a)	,662	,660	16,079

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	111217,744	1	111217,744	430,183	,000(a)
	Residual	56877,918	220	258,536		
	Total	168095,662	221			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?
 b Dependent Variable: satisfaction with housing

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	3,167	1,154		2,744	,007
	Thinking about the total family income, can you say that it is enough or not?	,785	,038	,813	20,741	,000

a Dependent Variable: satisfaction with housing

Annex 7. The regression model for the relationship between housing size and income (Roma in Hungary)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,698(a)	,488	,483	9,474

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8464,729	1	8464,729	94,299	,000(a)
	Residual	8886,717	99	89,765		
	Total	17351,446	100			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?
 b Dependent Variable: which is the approximate area of the dwelling?

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	4,703	,982		4,790	,000
	Thinking about the total family income, can you say that it is enough or not?	,947	,098	,698	9,711	,000

a Dependent Variable: which is the approximate area of the dwelling?

These tables show a significant association and also a strong relationship.

Annex 8. The regression model for the relationship between the number of the persons in the dwelling and income (Roma in Hungary)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,991(a)	,981	,981	1,322

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9058,863	1	9058,863	5184,618	,000(a)
	Residual	172,978	99	1,747		
	Total	9231,842	100			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

b Dependent Variable: How many persons live in your house?

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1,205	,137		8,796	,000
	Thinking about the total family income, can you say that it is enough or not?	,980	,014	,991	72,004	,000

a Dependent Variable: How many persons live in your house?

Annex 9. The regression model for the relationship between housing size and income (Roma in Romania)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,800(a)	,641	,639	15,124

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	89746,698	1	89746,698	392,372	,000(a)
	Residual	50320,261	220	228,728		
	Total	140066,959	221			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?b
Dependent Variable: which is the approximate area of the dwelling?

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1,355	1,086		1,248	,213
	Thinking about the total family income, can you say that it is enough or not?	,705	,036	,800	19,808	,000

a Dependent Variable: which is the approximate area of the dwelling?

Annex 10. The regression model for the relationship between the number of the persons in the dwelling and income (Roma in Romania)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,862(a)	,743	,742	12,589

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	100782,651	1	100782,651	635,916	,000(a)
	Residual	34866,520	220	158,484		
	Total	135649,171	221			

a Predictors: (Constant), Thinking about the total family income, can you say that it is enough or not?

b Dependent Variable: How many persons live in your house?

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2,274	,904		2,516	,013
	Thinking about the total family income, can you say that it is enough or not?	,747	,030	,862	25,217	,000

a Dependent Variable: How many persons live in your house?

UTILISATION OF BENCHMARKING TECHNIQUES FOR FUNDAMENTING DEVELOPMENT STRATEGIES IN THE MANUFACTURING INDUSTRY IN ROMANIA

Rujan Ovidiu

Academy of Economic Studies Faculty of International Business and Economics

Țarțavulea Ramona Iulia

Academy of Economic Studies Faculty of International Business and Economics

Vasilescu Felician

Academy of Economic Studies Faculty of International Business and Economics

Geambașu Cristina Venera

Academy of Economic Studies Faculty of Accounting and Management Information Systems

Abstract: *Benchmarking is a method used to measure the products, services and processes in comparison to an entity recognized as a leader in terms of performance of its operations. Used in the years 1970-1980 in the strategic management of the company currently has proven to be increasingly useful in many areas, including in international analysis models. In the European Union benchmarking indicators are used especially in the digital economy and as perspective indicators for 2011-2015 (Eurostat, Database).*

In the introduction we present and define forms of benchmarking, as well as a number of specific terms, which contribute to a better understanding of the content of this scientific work. Time series are used to highlight advances in labor productivity in EU countries, and the analysis is particularized for two countries: Romania and Germany. Quantitative data were collected from the source Eurostat website.

A comprehensive indicator at macroeconomic level is resource productivity, representing GDP in relation with domestic consumption of material (DCM). DCM measures the amount of materials used directly by an economy. It is presented in tabular form for all European Union countries and Switzerland, as evolving over a period of eight years.

Benchmarking method is used to highlight some differences (gaps) between EU countries regarding productivity and particularly the one between Germany and Romania is highlighted, concerning the performance of manufacturing industries. It is expected that this gap will diminish. The gap was highlighted by relevant graphics and interpretations. The second part of the paper focuses on comparative analysis of factors productivity using the production function. We analyze labor and capital productivity and other factors that determine the level of production. For highlighting the contribution of the labour factor we used the number of hours worked, considering that it reflects the analyzed phenomenon more realistically. For highlighting the contribution of capital factor we used as an indicator the capital stock in euros, available for Germany in the Eurostat database, and for Romania in the Statistical Yearbook 2009, expressed in RON, as comparable prices and then converted into euros at the average rate calculated by the NBR. The results for the entire manufacturing industry represent the basis for further expansion of benchmarking to the main components of this industry, especially automobile building, transportation vehicles, furniture, clothing, leather chemical, etc., providing a scientific basis to fundament the economic policies including commercial ones.

Keywords: *benchmarking, labor productivity, resource productivity, capital productivity, sustainable development strategy*

JEL Codes: *F15 - Economic Integration, F31 - Foreign Exchange, L6 - Industry Studies: Manufacturing*

1. Introduction: Characteristics of benchmarking

Benchmarking - a process that aims at seeking solutions to enhance the performance of the organization, based on the best methods and procedures of the

industry. Setting business goals based on optimal methods and procedures existing in the industry are an important factor in the success of business strategy.

Benchmarking techniques were originally developed in strategic management in order

to identify aspects through which one can compare an organization with similar organizations, even though they may function in a different industry or have a different target group of customers. In addition, benchmarking can be a valuable tool to identify areas, systems or processes that need improvement, which can take the form of a continuous development or of a dramatic change as business process reengineering.

There are several types of benchmarking, the most common being: - Technical benchmarking - involves identifying products and services capability, especially in comparison with similar products and services of leading competitors, market leaders, using a scale of 1-4 (4 being the best score) to quantify properties of products and services from your organization. If input data about products and services are difficult to obtain, they may be regarded as inappropriate to be competitive.

- Competitive benchmarking - involves a quantification of the main attributes, functions or values associated with products or services, so you can make a comparison between them and those of market leader (Sherman and Zhu, 2006)

- Functional benchmarking – represents using benchmarking methods to compare a particular business function in two or more companies (Lerna and Price, 1995). Camp (1989) defines it as a particular function comparison with best practices in that area.

Our aim is to conduct a study on industries in different countries using benchmarking. The research methodology consists of preparing the statistical series for a period long enough to show realistically the phenomena investigated, on productivity in EU member states and highlighting indicators of efficiency in manufacturing production in Romania and Germany. The indicators were estimated using the Cobb-Douglas function of production for the manufacturing industry in the two countries,

using data according to CAEN Rev.1.1 (including 2008).

2. Literature review

The International Association Global Benchmarking Network (GBN) is joining private and public institutions, non-profit or research organizations which have expertise in benchmarking. The role of this association is to share knowledge and capabilities in the field of benchmarking through exchange of experience between its members and promoting the best practices identified. Through the association's members, who are from different parts of the globe, the association keeps in touch with the current stage of development in the field of benchmarking and enhances the development of this branch of study.

In order to use benchmarking techniques it is essential to have a common understanding of specific terminology, which enable experts to express their ideas in a concise manner. In this respect GBN association has developed a glossary of terms. For a better understanding of this research paper, we considered necessary to present a selection of some relevant terms from the glossary of benchmarking terms, as it follows:

- Benchmarking Gap - represents the difference in performance between an activity conducted at a company and the same activity at other competitors on the market.

- Benchmarking of sectors - compares performance of two sectors, the purposes of comparison being to take best practices from one sector, and applies them to the weakest sector on that particular criterion.

- The productivity of capital - is an economic indicator of productivity, which measures the level of output (in euro or dollar) made for each euro/dollar invested in fixed assets. - Core competence - a company's strategic capability, which gives them a market advantage. - Productivity Benchmarking - provides companies with a systematic method to compile indicators of

economic growth in order to create a table of economic productivity used to identify activities and processes which do not add value, but represent an additional cost. Another important concept that will be used in the proposed research is that of labor productivity. The generally accepted definition of labor productivity is quantity of production obtained per unit of labor, which can be represented by the number of hours worked, number of employed persons (employees and other categories) or number of employees. The version which takes into account the number of hours worked is the most used, reflecting more realistic the phenomenon analyzed. The labor productivity determined using the number of employees, it is easier to calculate, but the quality of results is more modest. (Bolstorff and Rosenbaum, 2003)

Labor productivity can be determined for different representations of economic performance: total production or gross value added. We opted for the last presented expression of performance. Statistical data show significant differences between countries on this indicator.

3. Research Methodology

The research objective is to realize a comparative study between the performance of industries in different countries, and we chose Romania and Germany in particular. The research methodology consists in taking

the benchmarking method, and apply it in research of industry performance, comparing different countries of the European Union (to complete the picture of the studied phenomenon, we introduced the comparisons also Switzerland). We sought to highlight indicators of manufacturing production efficiency in Romania, taking specific indicators in Germany as point of reference.

It should be noted from the very beginning that, during 2000 - 2007 (2008), for which we had available statistics provided by Eurostat, Romania has a notable gap compared with Germany.

4. Comparative analysis of labor productivity

Regardless of the calculation method (see Literature review), labor productivity is only a partial measure of productivity, showing the cumulative effect of several factors: mainly capital and intermediate consumption, and technological and organizational efficiency, economies of scale or potential growth in utilization of production capacity. A comprehensive indicator at macroeconomic level is resource productivity, representing GDP in relation with domestic consumption of material (DCM). DCM measures the amount of materials used directly by an economy. In table 1, this indicator is presented for the EU members and Switzerland for the year 2007 compared with 2000.

Table 1: Resource productivity in the years 2000 and 2007 in EU countries and Switzerland (EUR per kg)

	2000	2007		2000	2007
UE 27	1,21	1,3	Lithuania	0,44	0,43
UE 15	1,4	1,57	Luxemburg	2,78	4,32
Belgium	1,32	1,47	Hungary	0,45	0,6
Bulgaria	0,13	0,14	Malta	3	2,14
Czech Republic	0,33	0,42	Holland	2,16	2,6
Denmark	1,28	1,24	Austria	1,41	1,4
Germany	1,41	1,71	Poland	0,32	0,38
Estonia	0,32	0,27	Portugal	0,66	0,62
Ireland	0,63	0,66	Romania	0,18	0,14
Greece	0,88	0,98	Slovenia	0,48	0,46
Spain	0,93	0,9	Slovakia	0,4	0,49
France	1,64	1,8	Finland	0,76	0,79
Italy	1,25	1,6	Sweden	1,71	1,79
Cyprus	0,66	0,64	United Kingdom	2,11	2,54
Letonia	0,24	0,31	Switzerland	3,05	3,36

Data source: Eurostat, Statistics, Sustainable Consumption and Production

We observe that the pursued indicator values are dispersed (from 0.13 Bulgaria, 4.32 Luxemburg), for 18 out of 28 countries (including Switzerland) the value of indicators has increased, most important being in Luxembourg, United Kingdom, Switzerland, Germany and Italy; for other 10 countries the value of the indicator has decreased, highlighting a diminish of efficiency in resources utilization.

To emphasize the important differences between countries on the resource productivity and its changes over time, we presented in chart 1 a upwards ranking of countries by indicator values in 2007, based on data in Table 1.

It appears that both the EU 27 and EU 15 increased in resource productivity, and former socialist countries, now EU members, without exception, are at levels below the EU 27 average.

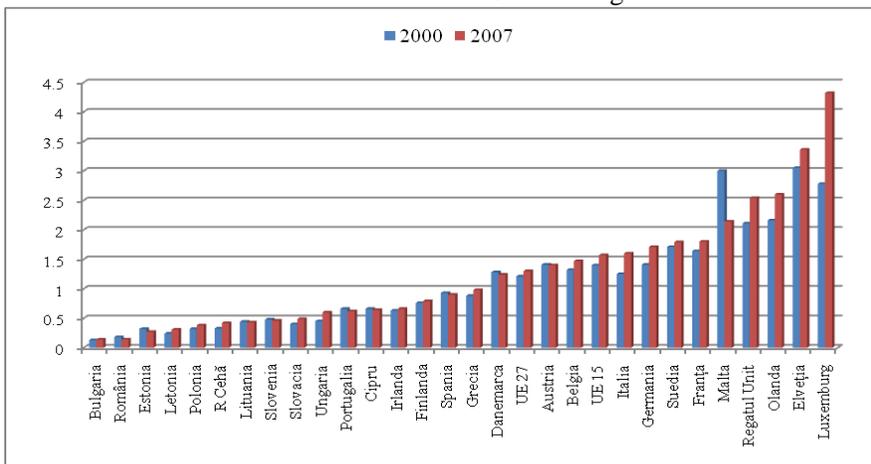


Figure 1: Comparison between the productivity of resources in 27 EU countries (and Switzerland) and Romania in 2000-2007

Source: Based on data from Eurostat Statistics, Sustainable Consumption and Production

Romania, as well as Bulgaria, is experiencing an amazingly low level of this indicator and, unlike Bulgaria, has recorded a decrease in time. Figure 1 shows a comparison between the evolution in time of the indicator in Romania and the European Union average.

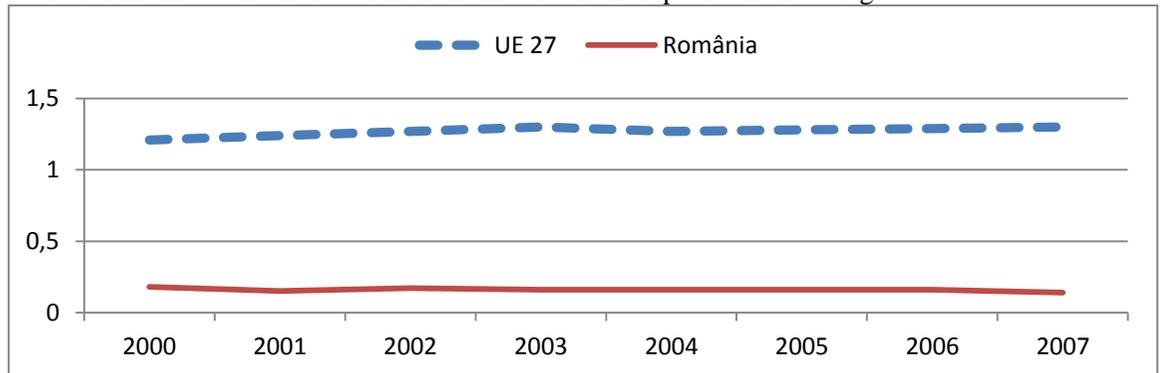


Figure 2: Comparison between the average productivity of resources in EU 27 countries and Romania during 2000-2007

Source: Based on the data from Eurostat, Statistics, Sustainable Consumption and Production

5. Capital productivity and capital stock

Capital productivity index shows the economic result (gross value added) produced by a certain amount of immobile productive capital.

To measure the capital stock involved in a production process, literature and empirical analysis recommends several methods:

- The flow of productive services provided by an asset in the production process;
- Gross stock of capital obtained by cumulating the investment flow, adjusted by the rate of removal from service of capital goods.
- The net stock of capital obtained by correcting the gross stock capital with the loss of productive capacity.

Given the availability of statistical data, we used the gross stock of capital to estimate the coefficients for the production function. In the process of estimating the production function coefficients, we have highlighted the contribution of other factors, besides labor and capital.

Multifactor productivity (MPF) allows the identification of distinct contributions of labor, capital, intermediate consumption and technology/efficiency to the final production. This contribution is shown by indicator PMF

- KLEMS (capital-labor-energy-materials-services), considered to be the most comprehensive measure of efficiency at industry level, calculated only for 25 countries from the EU, Romania and Bulgaria being excepted.

6. Results of the research and conclusions

For econometric estimation of production function coefficients for the manufacturing industry in the two countries, we used statistical data about gross value added (VA), the number of hours worked (HEMP) and gross capital stock (KGFCF) from the Eurostat database for Germany and the corresponding data of the same variables in the Statistical Yearbook of Romania 2009. Variables were converted from RON to euro for Romania, using the average annual exchange rate, published by the BNR. Before 2000, the exchange rate seemed to distort the value sizes studied, so we decided to limit the time series data to the period 2000-2007, although statistics provide data since 1995. The production function has the following expression:

$Y = A * L^{\alpha} * K^{\beta}$, where Y, L and k are respectively VA, HEMP and KGFCF and the exponents are elasticities of output

(production) to input (production factors). A expresses the contribution of other factors, besides labor and capital. The values

estimated using multiple regression are summarized in Table 2.

Table 2: Estimated coefficients for the production function related to the manufacturing industry in Romania and Germany for the period 2000-2007.

	A	α	β
Germany	19,04085387	0,857702548	0,146318628
Romania	0,581636175	0,052085522	0,972634345

Source: made by author based on econometric calculations

In Germany the elasticity of production to labor is 0.86, that means work contributed decisively to the increase of production in the period studied, while in Romania it is close to zero. Coefficient A shows the effect of technical refinements, organizational, etc. over production growth: it is high in Germany and low in Romania. Unlike labor factor, capital factor has had a remarkable contribution to increasing the production in Romania (although this increase was modest). We provide those interested many useful statistical data series concerning the investigated theme.

We believe that the elements outlined above can represent the base for analysis for all Romanian manufacturing industries because the comparison of them with several leaders of the world economy can represent the scientific fundament necessary for elaboration of economic policies.

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Section Economics and Business Administration
Sub-section: Business Administration

THE BRAND EQUITY OF TOURISTIC DESTINATIONS – THE MEANING OF THE VALUE

Ban Olimpia

University of Oradea Faculty of Economics science

Popa Luminița

University of Oradea Faculty of Economics science

Silaghi Simona

University of Oradea Faculty of Economics science

Abstract: *In today's global economy, each place competes with other places for economic benefits. Destination has become a product that has to be promoted and sold in the most advantageous terms. The work below is an analysis of "brand equity" concept for touristic destinations, as found in the specific literature. Destination brands differ from product brands, major distinction being given by their stability/ instability. Brands of products are stable; this constant is maintained by the use of quality standards. Even in case of services, situation can be controlled, as quality standards could be perpetuated by a franchise system. Destinations are not depending on a single person, who decides, but a variety of them, economic agents, businesses, institutions and local population that can create/print form and structure changes of the destination.*

The concept de brand equity applied for touristic destinations, is something relatively recent. The dimensions of a brand for touristic destinations are: awareness, image, loyalty, quality and value. All these dimensions build the branding equity of a destination. There is interdependency, between quality, image, loyalty and value. In order to determine the perception in regards to the quality of tourism services in Romania, in 2010 a comprehensive study was done among the inhabitants of Oradea city. Through this study we have pursued several objectives: to assess the importance of service characteristics, performance evaluation of tourism services in Romania, tourism personnel evaluation, in terms of evaluation and performance, perception of the quality-price ratio for Romania, compared with other tourist destinations. We call on the exploratory study conducted, as the value of the dimension- destination of the brand equity is given by the price-quality ratio. Using an explorative study on the market of Oradea city, it was highlighted the connection between perception of touristic services, estimation price-quality (value) and the loyalty potential of the foreign clients in proportion with the Romanian tourists, consumers of the Romanian touristic products.

Keywords: *brand equity, destination, tourism, survey, Oradea*

Code JEL: *M21, M31*

1. Introduction in the „brand equity” of a destination:

In relatively recent works, branding was treated as an essential subject (Aaker 1996), (Aaker and Joachimsthaler 2000), (Kania 2001). Modern branding appeared in the XIXth century and includes legal instruments as: logos, campaigns, identity systems, personality and the links between them. In tourism, branding is understood as being

“(…) a unique combination of product characteristics and added values, both functional and non-functional, which have taken on a relevant meaning which is inextricably linked to the brand, awarnesses of wich might be conscious or intuitive.(Morgan 1998: 140)”

Destination branding is even more recent. Among the first books that were exclusively dedicated to this subject, we mention *Destination Branding* (Morgan, Pritchard and

oger Pride:2002), and also the published works in special number of the Journal of Brand Management (Hall:2002), (Harrison: 2002) and (Morgan, Pritchard and Piggott: 2002). When talking about touristic destinations, brand equity is still a vague concept. The theoretical delimitation of this subject is still subject of changes. Brand equity is the process of not only establishing the characteristic of a brand, but also establishing the value of that characteristic. It comes from the financial evaluation literature of the 1990s (Barwise 1993). Aaker and Joachimsthaler (Aaker and Joachimsthaler 2000), both had an important contribution to the theoretical substantiation of brand equity. They launched the idea that the value of a brand is given by the: awareness of the brand, perceived quality of the brand, brand associations and loyalty for the brand. Hankinson completed the theory of brand value, by adding the concept of *brand network*, where the destination brand has four functions: (1) as a communicator, when the brand “represents a mark of ownership, and a means of product differentiation manifested in legally protected names, logos, and trademarks”; (2) as a perceptible entity “which appeal to the consumer senses, reasons, and emotions; (3) “brands as value enhancers,” that leads to the concept of brand equity; and (4) “brands as relationships, where the brand is built with personality and establishes a form of relationship with the consumer. (Hankinson 2004: 110–111), (Blain, Stuard and Ritchie 2005: 329). Using the brand is one of the primary forms of product differentiation. The question is to what extent branding as part of marketing strategy can be used to create brand equity for a touristic destination that is not yet known, virtually the same time seeking notoriety and differentiation. There are opinions that say that this is possible. (Room 1992:13–21) For a consumer, brand evaluation is simple. Brand equity value is given by the difference in price between a generic product and an equivalent one that “has a name”. This

reference to generic products is increasingly difficult, as almost all generic products do not exist anymore. In regards to the touristic destinations, the brand equity evaluation method requires changes, as the comparison “on the shelves of a store” is not possible. In case of tourism destinations, the indicators used for assessing brand equity is: the number of tourists who choose a destination, the volume of expenditure made in that destination and the length of stay.

2. The dimensions of tourism destination brand

The experiential factor marks a significant difference between products and destinations. A destination cannot be tried, seen before purchase and consumption, therefore the idea of having a guarantee is excluded. The touristic product of a destination product is experiential by nature and it differs for each customer because of the internalization of the experience.

Novelty is essential to differentiate destinations. Tourist trip requires differences between place of residence and destination, among other destinations and chosen destination. This is why, in many promotional messages, the novelty is found even in the title or slogan. (Pride 2007)

A destination must be different from many points of view to worth the time and the money, but the novelty cannot be simply declared, it must be demonstrated -“novelty cannot simply declared, it must brand equity earned” (Cai, Gartner and Munar 2009: 54)

Novelty given by the destination is recognized in the perception of the consumers - consumers must be aware of the differences between their residency and other destinations.

The dimensions of “destination brand” are different than the product brand, although mainly follows the same steps. Theorists and practitioners support the idea that places are being branded the same as products and

services are. Kotler extended the concept of brand from products to destinations.

Konecnik and Gartner (Konecnik and Gartner 2007: 400–421) have proposed four dimensions that can be applied to destinations: **awareness, loyalty, image and quality**. Tasci, Gartner and So (Tasci, Gartner and So 2007) have added another one, **the value**, which we consider to be appropriate.

Different consumer segments evaluate each of these dimensions in different and significant ways.

- **Awareness** is an essential dimension of the brand. It is the first step in building brand equity. A place can be known in a certain context before it can be considered a potential destination. Goodall (Goodall 1993) identified four levels of awareness of a place: knowledge, familiarity, top of mind and dominant. Dominant has here the meaning of the spotlight for various reasons, it is what is called a "hot spot" and may be positive or negative in nature.

- **The image** is the dimension that attracted the most attention of researchers, there are a considerable number of articles on this subject. Initially it was thought that the image can substitute for the other dimensions of the brand, but this opinion has remained isolated. The roots of the brand are reflected in the destination image studies initiated since the 1970s (Hunt 1975)

Creating a brand does not mean branding, though it's the base of the brand-building. Building the image is one step closer to the brand, but what still lacks is the **brand identity**. (Cai 2002)

Loyalty is given by repeat visit or repeat purchase.

- **Quality** is a subjective term, but can be operationalized through a series of scales. As an independent dimension (and not subject to image), it has been studied by many researchers (Fick and Ritchie 1991); (Murphy, Pritchard and Smith 2000). Quality is assessed from consumer's perspective, in fact the quality perception is evaluated.

Quality is a key dimension of brand equity of a product and maintaining it is mandatory, this rule extends to the tourism destination as well. Establishing and maintaining a quality level for a destination requires controlling all products and services "supplied" by the destination and this is something very difficult to realize. On a tourist destination, the quality can be ensured only in regards to the common objectives such as museums, reservations etc. but it is perceived in regards to accommodations and individual services. The brand is a guarantee of quality (of a certain quality). Consumers expect and are willing to pay extra for the peace of mind that a brand is providing them. "At the Same Time, visitors can also expect to pay a premium for this assurance of quality and reduction of perceived risk." (Blain, Stuarda and Ritchie 2005: 330)

- The brand equity **value** is the most recently studied dimension and is seen as part of quality, **reflected in the price paid for a product**. The importance of price in the evaluation of BE was recognized by several researchers (Echtner and Ritchie 1993). However the price is not synonymous with quality. Value does not refer to quality or price, as much as it refers to favorable or not-favorable price-quality ratio. For example, a services package can be seen as valuable, not at the expense of the high quality services, but at the expense of quality-price ratio. Consumer segments related to mass tourism focus more on value, understood as "fair value for the money".

Operationalizing the dimensions by a scale of measurement is a necessary precondition in order to isolate the dimensions of the destination.

3. Research methodology and results

The research was conducted in two stages: March-April 2010 and March-April 2011.

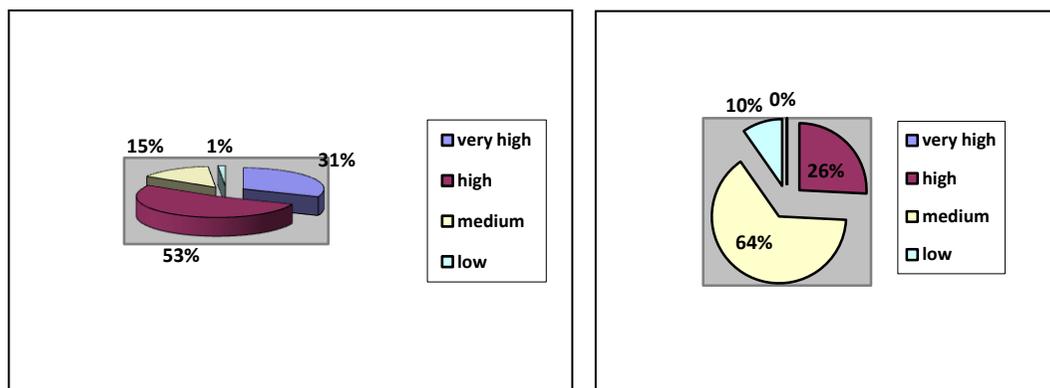
The first phase was conducted in March-April 2010 on a sample of 1060 people from the population of Oradea city. The sampling method chosen was the stratification method

(with a margin of error of 3%) and the used criteria was the age. After the criteria the distribution was chosen, as follows: 150 people aged 18-24 years, 234 people aged 25-34 years, 208 people aged between 35-44 years, 192 people aged 45-54 years, 152 people aged between 55-64 years, 124 persons aged between 65-80 years. There were investigated persons who benefited of accommodation at least once during the period 2007 - until the time of the survey. The purpose of the research was to investigate Oradea's population level of satisfaction in regards to the quality of tourist/guest services and the quality of tourism personnel services in Romania, and the results were presented in the paper "Guest services quality assesment in tourism, using an attributes scale" (Ban and Popa 2010) The second stage of the research was conducted between March-April 2011 on a sample of 62 people, consisting of foreign tourists present in Oradea and the surrounding area, therefore active consumers of tourism services in Romania. The distribution of the sample, based on age criteria is as follows: four persons aged

between 18-24 years, 6 persons aged between 25-34 years, 20 people aged between 35-44 years, 22 people aged between 45-54 years, eight persons aged 55-64 years, two persons aged 65-80 years.

The investigation on the price level perception of Oradea's population, has produced the following results: more than half (52.6%) believe that the level of prices in Romanian tourism is high, while a percentage of 31.1% believe that the prices are prohibitively high. Summing up the percentages, 83.7% believe that the level of prices in Romanian tourism exceed far beyond what consumers are willing to pay. Only a percentage of 14.7% believe that prices are right, at a medium level, while only 1.6% of the respondents believe the Romanian tourism prices are low.

Unlike the Romanian people, a percentage of 64.5% of the foreign tourists consider that the prices of tourism services in Romania are at a medium level and only 25.8% consider that the prices are at a high level. No foreign tourist investigated in this research considered that the price level is **very high**.



(produced by the authors)

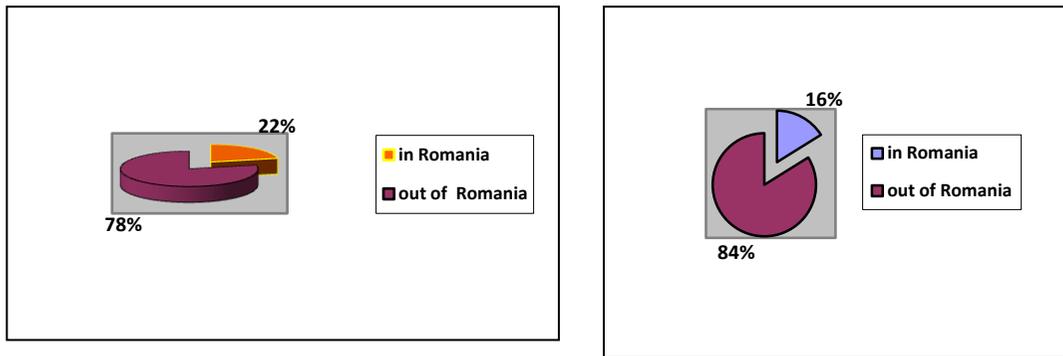
Figure 1 (a) Opinions of Oradea's population in regards to the prices of tourism services
(b) Views of foreign tourists in regards to the prices of tourism services in Romania

Any assessment of cost is directly or indirectly in relation to the perceived value of the product. Regarding the option for their

future vacation destination, it is not surprising the relatively small percentage of those who chose Romania, but the fact that the values

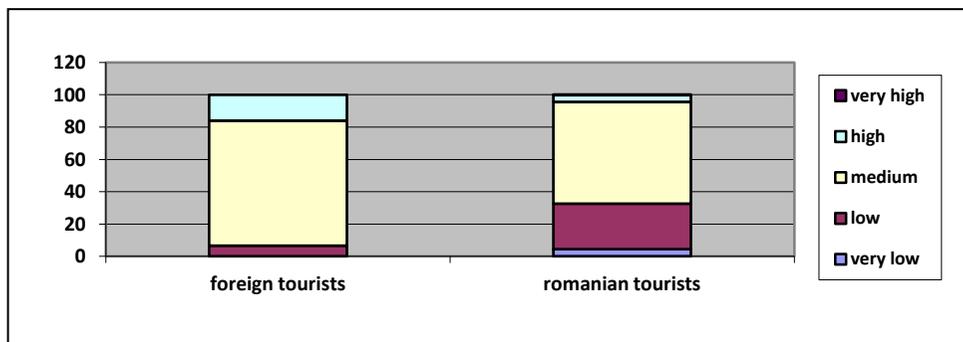
recorded for Oradea’s population and foreign tourists are close. The premise was that many more Romanians would choose Romania. By using the SPSS software, was verified the type of link that exists between the desire of the foreign tourists to return to Romania (loyalty required by the brand equity) and

their evaluation of the quality of tourism services in Romania. A positive correlation was identified, with a very high level of significance, which supports the idea that the choice of a tourism destination is based on the perceived quality of tourism services of that particular destination.



(produced by the authors)

Figure No. 2 (a) Opinions of Oradea’s population on future holiday destination choice (b) views of foreign tourists in regards to their next holiday destination choice



(produced by the authors)

Figure 3. Oradea inhabitants’ opinions in regards to the quality of tourism services in Romania and of foreign tourists’ opinions on the quality of tourism services in Romania

4. Conclusions

The increase of the brand equity of a destination is a natural goal. The dimensions of the brand of a tourism destination are: awareness, image, loyalty, quality and value. These dimensions are building the brand equity of a destination. Between quality,

image, loyalty and value there is interdependence.

The exploratory study performed on Oradea’s market highlighted the link between perceived quality of tourism services, “value for money” assessment of tourism services (the value) and the potential of customers’

loyalty. The results of the study conducted on foreign tourists have shown that a perception of high or very high quality of services is directly related to the option of visiting Romania and hence a perception of a medium or low quality of tourism services is related to the intention of choosing another destination. The percentage of those who wish to return to Romania is low, only 16%.

The perception of poor quality tourism services is also related to the big picture, as the countries in Central and Eastern Europe are associated with inconsistent quality, poor service of bad quality, poor quality of accommodation (Hall, 1999).

The effort of changing the reality of tourism services in Romania has to be supported by the effort of changing the image-umbrella of an entire geographic region.

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THE TOURISM BARRIERS OF THE DISABLED IN ROMANIA

Băbăiță Carmen Mihaela

University of the West Timisoara, Faculty of Economics and Business Administration

Nagy Andrea

University of the West Timisoara, Faculty of Economics and Business Administration

Filep Adrian Viorel

*University of the West Timisoara
Faculty of Economics and Business Administration*

Abstract: *This article seeks to address a very sensitive issue in Romania, the disabled tourism. The natural question is whether tourism can respond and meet the needs of such people. Internationally, the researches in detail about tourism for people with disabilities are limited in this direction, and those who exist are focused more on lack of physical access to certain services in the hotel units.*

As for the problems (barriers) that a person with disabilities may face when seeking to participate in the act of travel there were found numerous internal and external barriers in trying to participate in tourism activities

The study seeks to identify how normal people behave towards people with disabilities and aims to demonstrate the existence of correlations between the responses of the interviewees, which would lead to the presentation as close to the truth as possible of the results from the sample (section), transposed over the population from which the sample belongs and also lead to finding conclusions on which there could be made several proposals.

Keywords: *tourism, disability, social tourism, attitude, internal and external barriers*

Cod JEL: *M10, L83*

1.Introduction

Tourism in its current form appeared only in the XIXth century. Actions related to social tourism began in 1936, when the **International Labour Organization (ILO)** agreed that the on access to paid leave should be done by tourism (Convention No.52.). In essence, this agreement has also been mentioned in the **Universal Declaration of Human Rights** in 1948, stating that “everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay”.

Thus we can say that tourism has emerged as a social practice due to the ethical demands of the representatives of employees, justifying the legitimacy of a specific right, so thus the right to travel, as an extension of the right to work, to rest and to take paid leave.

However, some social historians say that tourism has emerged a few decades earlier, with the opening of camps for disadvantaged children, as well as the opening of the twentieth century, youth hostels. The emergence of hostels and bed & breakfast accommodation system occurred in the late nineteenth century. At that time, most tourist facilities where the ones in the private sector or belonging to other organizations willing to improve tourist access to a much larger number of people and making a profit.

After the Second World War ended some social policies were implemented in several countries as subsidies for private housing, their renovation, modernization of equipment and infrastructure, and as well as aid to the population. Also, many associations have been created under different unions, travelling families, work councils, etc. all had as main objectives social development and expanding social tourism.

2. Disabled tourism

This article seeks to address a very sensitive issue in Romania, the disabled tourism. According to the 448 / 6 December 2006 law , people with disabilities are those people who, because of physical illness, mental or sensory impairments, lack skills that prevent them from carrying out normal daily activities, requiring protective measures in support of recovery and social inclusion.

The natural question is whether tourism can respond and meet the needs of such people. Internationally, the researches in detail about tourism for people with disabilities are limited in this direction, and those who exist are focused more on lack of physical access to certain services in the hotel units.

Very few studies have been published concerning the issue of tourism and people with disabilities (Burnett & Baker, 2001, Darcy, 1998, 2002). Some academics specialized on tourism were concerned with these problems in the late 1980s and early 1990s (Smith, 1987; Muloin, 1992), Smith's work being one of the few works published in a major tourism publication. Since then, academics in the field of tourism have been silent on this subject. Also referring to the disabilities literature which is characterized by the lack of consideration of those issues, identify one or two studies. Various studies are as well illustrated by the Canadian Tourism Commission (1997), Burnett and Baker's work (2001) in the U.S..

The broad spectrum of disability problem has become a field of study since the early 50s. Typically, these studies and debates related to persons with disabilities, in orbit around the **social model of disability**, emerged in Britain in 1976 from the activity against segregation by the Physically Unfit Union .

Disability is a generic term for diseases or disabilities, activity limitations and participation restrictions as defined in the international classification of functioning, and health disability adopted and approved

by the World Health Organization to show the negative aspect of individual context interaction (Law 448 / 6 December. 2006, Art. 5, pct.16).

Researchers Hugh and Paterson (1997) say that the company creates an environment that does not take into account the needs of those with disabilities. They tried to make a clear distinction between those with impaired and those with disabilities. Such **disorders** refer to the normal functioning of the individual caused by mental or sensory dysfunctions and **disability** is the loss or limitation of opportunities to live normally in society on an equal level with others due to physical barriers. The fact is however that until nowadays a social model for people with disabilities wasn't treated in tourism literature.

3. OBSTACLES IN ACCESS OF THE PEOPLE WITH DISABILITIES

As for the problems (barriers) that a person with disabilities may face when seeking to participate in the act of travel there were found numerous **internal and external barriers** in trying to participate in tourism activities . These barriers can be classified as:

Internal barriers are obstacles that must be overcome before a person becomes active in terms of tourism and that the individual has the greatest control over these barriers. In this way people with disabilities should be helped through institutionalization at the recovery units. For example in Romania this aid is extremely small as about 3.62% of people benefit from institutionalization

External barriers - which may inhibit their journey, they may limit the options or reduce satisfaction. This category includes: *architectural barriers* such as stairs, toilet accessibility, accommodation, and *environmental barriers* difficult paths, tree roots or other obstructions outside, *means of transport*, especially the local variety of means of transport, which includes cars, buses and taxis ; *laws and regulations* that

prohibit the people with disabilities to bring necessary equipment with them, *communication difficulties* both at home and at the receiving person, *negative attitudes* from service providers and *incorrect information*. Tourists with a disability must consider that foreign travel agencies must break down these barriers.

In 2002, Darcy reveals that **attitudes towards individuals with disabilities**, and research undertaken on this market segment, in particular, have evolved significantly in the last 25 years. Originally attitudes, regarding disability were conceptualized in a framework of personal tragedy, concentrated on individual helplessness. The person was treated as an unfortunate victim. Since then, the emergence of political movements for the rights of persons with disabilities have changed the overall impression of personal tragedy, to disability as a form of social oppression.

The way in which disability is conceptualized and natural attitudes have a profound effect on society and people with disabilities. First of all, attitude influences individual behavior regarding people with disabilities. Understanding disability as an "abnormality" of a person rather than a social failure, it outlines behaviors that lead to isolation and marginalization. In many cases, certain behaviors are not intentional but rather are rooted in social practices "non-disabled". Second, attitudes form public opinions, attitudes which influence social and public policies, resource allocation and access to education, transportation, jobs, etc.. Finally, prevailing attitudes influence the perception of people with disabilities of themselves .

4. RESEARCH DIRECTIONS

The study seeks to identify how normal people behave towards people with disabilities and aims to demonstrate the existence of correlations between the responses of the interviewees, which would lead to the presentation as close to the truth

as possible of the results from the sample (section), transposed over the population from which the sample belongs and also lead to finding conclusions on which there could be made several proposals.

Between the specific objectives we find: knowledge or the social prerequisites, psychological and cultural of the interviewees; discovering the causes that lead to negative feelings, on people with disabilities, eliminate the causes, proposed ways of intervention and trying to change the behavior of the normal people.

Knowing the psychological assumptions helps determine the way people act, understand the personal points view and also allows the identification of certain measures by which those with disabilities could be integrated and accepted in society.

Discovering the causes which lead in forming an opinion regarding people with disabilities could be one of the most important secondary objective, this objective is important because it may act directly on the case and not on the effect that results.

Finally the directions of intervention in modifying behavior of the normal people towards people with disabilities should be materialized at the end of the present study. The modeling of the behavior occurs when the stimuli are identified, the basic behavioral processes are analyzed, the explanatory variables of behavior and behavioral response.

5. RESULTS INTERPRETATION

The research was conducted on the basis of a questionnaire. Sample size was 100 people chosen randomly. The sample was structured: 40% of them are under 24 years, 20% of people are between 25-30 years old, 8% of people between 31-35 years old , 14% between 36-45 years and the rest, 18% are people over 45 years. Of these 62% were women and 38% were male. Regarding the marital status of respondents 44% aren't married, 34% are married and the rest belong

to other categories (divorced, widowed or living with partner).

The study was conducted by distributing questionnaires in urban areas, in Timisoara, and 62% of the respondents have completed either a college, a university or a post-graduate study, while 32% are high school graduates. We can say that the education level has a major influence in assessing the behavior of people with disabilities, in the knowledge that education is directly proportional to the positive responses in terms of acceptance, understanding and helping these people with disabilities. This can be observed from the study because the question of concerning "helping people with disabilities", 94% of the respondents would be willing to help such a person and 72% of them, have done it already.

Regarding the attitudes of normal people towards people with disabilities in society, it is found that the opinions of those people are divided. On a scale containing five possible answers: from compassion, mercy, acceptance, restraint, and indifference it is found that compared to the normal version of acceptance chosen by 34% of respondents, there is a balance between compassion and restraint (16% of the responses for each question) and an imbalance between compassion and indifference, they have chosen 32% and 2% of respondents (an insignificant percentage). Because according to the glossary "compassion" is associated with a sense of understanding and sympathy to the suffering and misery concerning someone; positive feelings total overall 82% of responses, a sign that these people are understood and are given support from individuals.

Regarding the people's situation in Romania, it is not a very good one because the perception to the human rights of persons with disabilities knows negative aspects. To analyze the situation of peoples with disabilities in Romania there were developed three questions:

1. *"Do you think that there are respected the human rights of people with disabilities in Romania?": 68% consider that the right are not respected, 22% said yes and 10% of them do not know or are not interested.*

2. *"Do you consider that people with disabilities should receive certain gratuities?": 84%, have replied yes and 16% said that they do not.*

3. *"Should programs against discrimination of the disabled, be introduced in schools?": 62% said yes, 16% said no and 22% believe that these things must be learned at home.*

In conclusion, the Romanian society does not help people with disabilities in Romania and the fundamental rights are not respected. In principle these people would be helped by the state through the granting of gratuities and benefits. What is crucial is that programs against discrimination of the disabled should be introduced in schools, because it is known that the children's education must contain rules that causes them to act ethically and morally towards these people.

When asked "What do you think the integration of disabled people in society", the answers "very important" and "Important" occupy the largest share of responses 54% and 28%. We can say that 82% of the respondents believes that integration of persons with disabilities in society is extremely important and agree with this point of view, and consider that such people should not be marginalized.

Also on the problem in terms of employment chances of people with disabilities. In this sense 78% of people with normal capacity to work, inform that employers are reluctant in hiring these people. 80% of those surveyed said they have colleagues at work with disabilities and that there are no cooperation or social issues, but there exists a significant number of people who would not agree to collaborate at work with them, which is

concerning because 14% of them answered like this

Regarding the participation of disabled people to the act of tourism, individuals answers were hopeful because even if, as the disabled are not accepted at work, the situation is different in a hotel, 92% of respondents would not be disturbed by the presence of people with disabilities in a hotel where they were individually penned.

When asked "What do you think about tourism products for people with disabilities?" being an open question, respondents were able to freely choose their answers without being restricted by answers. The answers to the questions above are different and presented in a special way by each interviewee. The most frequent response was *"I have not heard about such products for people with disabilities"* Those who have heard and know these products are of the opinion that the number of products is very small compared to the number of people with disabilities, and that these products are not known even by the recipients, and are difficult to obtain even if you belong in that category disabled. The most important thing about these products is that it gives people with disabilities the opportunity to socialize and integrate into the society.

Another view of respondents: state organizations, regional and local ones do not offer aid to the disabled.

Regarding the promotion of these products, media channels do not consider this as an important fact and do not promote them because they do not obtain financial benefits. Existing channels that promote such products are local ones but of no national importance.

Other opinions say that those people with disabilities should receive such products irrespective of destination, travel time or means of transport chosen, thus a social development of tourism and also building access roads and other facilities absolutely

necessary for each hotel , motel, resort, tourist destination.

6. CONCLUSIONS AND PROPOSALS

Surrounded by negative attitudes, people with disabilities can internalize negative beliefs and attitudes. It is recognized that the nature and severity of disability can affect the scope of activities to which a person can participate, but may also influence how the tourist experience is formed.

After analyzing the data we can say that people with disabilities are accepted in society by all other categories of people by supporting the integration process, respondents have the opinion that this process is of great importance and that it should exist in any modern society; besides the fact that the states must be required to provide the disabled and give certain financial gratuities and psychosocial help.

Most people have the opinion that people with disabilities and people with disabilities face difficulties in finding jobs, qualified or unqualified. Their problems are accentuated and supported by the reluctance of employers, higher health costs and other types of insurances. In addition to these serious problems, these people are refused at interviews because of their condition. Although 86% of respondents would not be "bothered" to work with people with disabilities that is not reflected in obtaining a job, from the individuals concerned.

Granting help to such a person is a fairly widespread phenomenon in Romania, as reflected by the number of responses, which shows a great solidarity among people belonging to all social categories and more than 10% of respondents have in their families people with disabilities and face with all the problems that such a person may have.

The most important person's perspective refers to introducing these special programs against discrimination for people with disabilities in schools. These programs lead to changes in behavior and attitudes towards

people with disabilities and disabled. Through these programs there are removed barriers of communication, the emphasis is on socialization and integration, on giving unconditional aid and late but not least social acceptance of each people.

The attitude of respondents should be improved and may even reach some collaborations, events, games and excursions for all people (including people with disabilities). These events have a crucial role in changing the negative aspects and strengthen the already existing ones.

Facilities for disabled people, should be necessarily placed in any institution, means of transportation, hotels, resort, and other accommodations and tourist destinations, etc. These facilities could be regulated by laws, governmental decisions and a supervision is required.

Tourism products for people with disabilities should be promoted on the channels known by the public, the number of products should cover as much of the total number of recipients. This can be done by organizing cyclical products or circuit ones so that in the course of two years all disabled people would enjoy a product of this kind.

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START-UP FINANCING SOURCES: DOES GENDER MATTER? SOME EVIDENCE FOR EU AND ROMANIA

Bădulescu Alina

University of Oradea Faculty of Economic Sciences

Abstract: *Although financial resources are very important in SMEs in general, and for start-ups in particular, many entrepreneurs face numerous restrictions in finding sources for start-up financing. The present article aims to investigate the similarities or differences in start-up financing sources due to gender issues, otherwise to investigate if female entrepreneurs use (or have access) different financial sources in the early stage of their business.*

As reported by the literature, access to finance is one of the most important issues for SMEs and nascent entrepreneurs. Moreover, among the main financial issues, the first one is the access to start-up finance (Schwartz, 1976; Carter and Cannon, 1992; Johnson and Storey, 1993; Koper, 1993; Van Auken et al, 1993; Carter and Rosa, 1998, FOBS survey 2005). In all sectors, women use for starting up businesses substantially less capital than men. Women encounter, more than men, credibility problems when dealing with bankers. This problem causes important effects concerning the performance, survival and growth of women-run businesses.

The present research focuses on revealing how male and female entrepreneurs face and solve the problem of start-up financing sources. The methodology is based on using the dataset "Enterprises managed by the founder - broken down by gender of the entrepreneur", available in EUROSTAT database. The data selected refers to the start-up financing sources available for European Union and Romania, regarding activities included in NACE: Industry and services excluding public administration and management activities of holding companies and 2005 as time of reference. The data were used to make some comparison between: male versus female entrepreneurs in EU; male versus female entrepreneurs in Romania; EU entrepreneurs versus Romanian entrepreneurs.

The main findings reveal that there are no significant differences between men and women concerning the start-up financing sources. The main sources are the internal ones: own fund and savings (ranging from 82% to 92%), and financial assistance from family and friend (ranging from 25% to 34%), both for male and female entrepreneurs, both for EU as an aggregate and Romania. Among the external sources, bank loans are the most important: they have been indicated by 17% of the females (EU) and 19% of the males, about 10 times more than the other external sources together: capital contributions from other enterprises and venture capital. There are no significant gender differences in EU case, and also there are not in the case of Romania. Apparently, gender does not matter about sources used for start-up financing. The most significant difference concerns the financial support from public authorities as financial source. The number of female entrepreneurs indicating financial support from public authorities as a source for start-up financing represents 6.18% in EU, versus 0.17% in Romania (36 times less in Romania than the EU average), while for men the figures are 4.85% in EU versus 0.30% in Romania (16 times less in Romania). This gap brings again in front of policy responsible the imperative of financially supporting nascent entrepreneurs, as the key to sustainable economic growth.

Keywords: *entrepreneurship, women entrepreneurship, financial sources for business start-up*

JEL code: *M13*

Introduction

Entrepreneurship is widely considered as a driving force of economic growth, job creation and promoting innovations, and thus, an important focus of economic policies. As a result, the number and incidence of SMEs in the national economies are increasing constantly. Nevertheless, fostering entrepreneurship needs providing fair access to financing. Unfortunately, the access to finance is mentioned as one of the most important barriers (Hughes and Storey, 1994) and in the case of female entrepreneurs, the situation is even worse.

In this paper we are going to investigate the differences (if there are any) between female entrepreneurs and male entrepreneurs with respect to the sources of start-up financing, for EU and Romanian case. The paper is organised as follows: in the first part, we make a brief review of the literature; in the second part we present the methodology used, in the third part we emphasize the main results, and finally we conclude.

1. A brief review of the literature

Start up financing is a major problem for the nascent entrepreneurs, as banks, the most important lending supplier, are reluctant to involve in SMEs financing, for reason related to asymmetrical information - adverse selection and moral hazard. The financial problem is a constant of the entire life-cycle of the SME, but researches showed that the first stage of existence (from idea to start up and then, first steps to development) is more affected by financial restriction than following stages. Especially in the so-called "valley of death" stage, the problems are very serious and most starting entrepreneurs use their own savings, family and business angels support (see Badulescu and Badulescu 2010). Theoretical explanations of the prevalence of the internal finance (personal savings or retained earnings) in the SMEs case are confirmed by recent European Barometer on Entrepreneurship (EC, 2009). According to this, across all EU Member States, a majority

of interviewees agreed that it was difficult to start one's own business due to a lack of available financial support. In Greece, Bulgaria, Latvia, Slovakia, Spain and Romania, 90% or more of the respondents agreed (strongly agreed and agreed) with that statement. At the bottom of the ranking, people in Finland, Austria and the Netherlands agreed with the statement on a proportion of less than two-thirds (56%-63%).

Female entrepreneurs, more than males, face start-up financial difficulties. Start up finance is one of the most cited problems in the case of women entrepreneurs. For example, the most important problems facing women entrepreneurs are – in the opinion of the specialist agencies cited by CEEDR 2000 – as follows:

- Start up finance (indicated by more than 25% as a major problem);
- Finance for growth (indicated by more than 20% as a major problem);
- Discrimination by finance providers (indicated by more than 15% as a major problem). All of these are related to the access to finance.

Among the *four* areas of finance identified as posing problems for women by Carter, S. (2000) and then Carter, Anderson and Shaw (2001), the first one is access to start-up finance (Schwartz, 1976; Carter and Cannon, 1992; Johnson and Storey, 1993; Koper, 1993; Van Auken et al, 1993; Carter and Rosa, 1998, FOBS survey 2005). Irrespective of sector and location, *women start in business with only one-third the amount of capital used by men*. Women are more likely to encounter credibility problems when dealing with bankers. It is difficult to raise start-up finance. Some studies have shown links between low start-up capital and subsequent poor performance. Female entrepreneurs use substantially less capital at start-up than male owners, although intra-sectoral similarities demonstrate that gender was only one of a number of variables affecting the business financing process

(Carter S. and Rosa P. 1998). The majority of women business owners have had to rely to a significant extent on self-generated finance during the start-up period of their business. Whilst many small businesses face difficulties in accessing the finance that they need (particularly at start-up), organizations specialising in providing support for female entrepreneurs clearly feel that this is one area where their clients face greater difficulties than their male counterparts. Shaw, Carter and Brierton (2001) have found research that suggests women face more difficulty when seeking finance to set up and grow their business. They note that women use only one third of the starting capital that men do, irrespective of sector; on-going growth finance may be less available for female owned firms than it is for male enterprises, largely due to women's difficulty in penetrating informal financial networks. More women-owned businesses, for example, used family savings, household income, inheritance, grants and friends as sources of business finance. "In fact, Carter and Anderson (2001) found that women's personal savings constitute between 80% and 99% of initial capitalisation, compared to men where the figure is between 30% and 59%. Although this may seem admirable it can often have a negative effect on the business (Sannikova 2007).

Using a panel of 2000 Dutch start-ups (1994), Verheul and Thurik (2001, p. 14) found out that „female entrepreneurs have a smaller amount of start-up capital than their male counterparts, but that they do not significantly differ with respect to the composition of financial capital". Women starts up their business with less capital than men, and this can be attributed to a direct effect („gender effect": men and women having the same characteristics but different with respect to the way of financing their businesses) and to an indirect effect („the female profile": differences related to business type, management and experience)(Verheul and Thurik, 2001).

Smaller financial resources to start up business leads unfortunately to less business performance and growth (Welter et al. 2006).

2.Methodology

Aiming to reveal the similarities or differences between female and male entrepreneurs' start-up financing sources, in EU and Romania, we used the dataset "Enterprises managed by the founder - broken down by gender of the entrepreneur", available in Eurostat database. We select from this database the data regarding the start-up financing source available for European Union (aggregate changing according to countries available) and Romania. Available data refers to NACE: Industry and services excluding public administration and management activities of holding companies and to the year 2005.

First, we select the data for the EU, broken by the gender of the founder and manager of the firm and search to arrange the sources for start-up financing starting with the most important, e.g. more nominated by the respondents. Second, we did the same thing for the data available for Romania, sorting them by relevance. Third, we tried to make some comparison between:

- Male versus female entrepreneurs in EU
- Male versus female entrepreneurs in Romania
- EU entrepreneurs versus Romanian entrepreneurs.

3.Discussion and results

As the literature reported, and according to expectations, the main source for start-up financing used by women nascent entrepreneurs in EU are the own funds and savings. More than 4 out of 5 cited own funds and savings as a source for start-up financing, followed by the financial assistance from family and friends, reported by 3 out of ten women entrepreneurs. Far from these internal sources, the external sources are barely mentioned. Even we approach bank loans together - with and without collateral – they

are mentioned by only 1 out of 6 of the respondents. If we approach separately bank loans without and with collateral, the third source appears to be The financial support from public authorities (mentioned by 6% of

the respondents). Capital contributions from other enterprises and venture capital are nominated by only 1.34% of the women entrepreneurs. The complete picture is shown below:

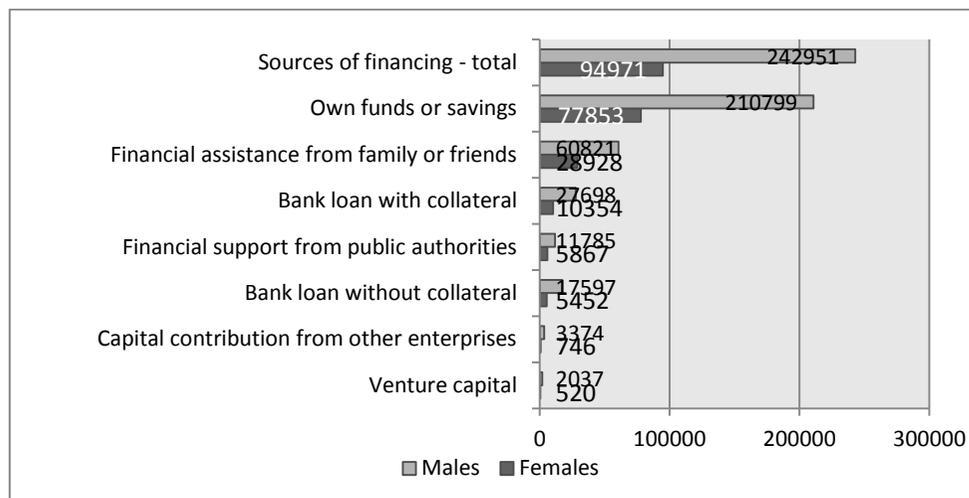


Chart 1. Sources for start-up financing, NACE industry and services, EU, males and females, 2005

Source: based on Eurostat database

Basically, the same ranking applies for men entrepreneurs. Own fund and savings, and financial assistance from family and friends are the first two sources for start-up financing. Own funds and savings are mentioned by 87% of the men (even more than the 82% in the case of women), while financial assistance from family and friends is mentioned by 25% of the men (less than the 30% indicated by women). This little difference can be attributed to the fact that men may have (or may consider that!) more personal money than women, so essentially the same money are, for men, own fund, and for women, family's money. It may be also an indication of the less effective networking in the case of women (explaining why financial assistance from friend is less important than in men's case. And also, do not forget that women have more women friends (with less financial resources) and

men have more men friends. Bank loans with collateral are the third financing source. Together, bank loans (without and with collateral) are indicated by 18.64% of men (versus 16.64% of women). Financial support from public authorities (mentioned by 4.85%) and capital contributions from other enterprises and venture capital (mentioned by 2.23% of the respondents) are still marginal sources.

In the case of Romanian entrepreneurs, the picture is mainly similar, as expected. The main source is, far from the others, own funds or savings, indicated as financing sources by 90% of the female entrepreneurs and even more by male entrepreneurs. The second source is financial assistance from family and friends (indicated by 1 out of 3 entrepreneurs, males and females). Bank loans are indicated by 7% of the Romanian female entrepreneurs, and 9.24% of the Romanian male

entrepreneurs (for comparison, bank loans have been indicated by 17-19% in EU case). Capital contribution from other enterprises and venture capital are almost not used as start-up financial sources. Financial support

from public authorities is effectively non-existent, with 0.17% of the females and 0.30% of the male entrepreneurs indicating as a start-up financial source.

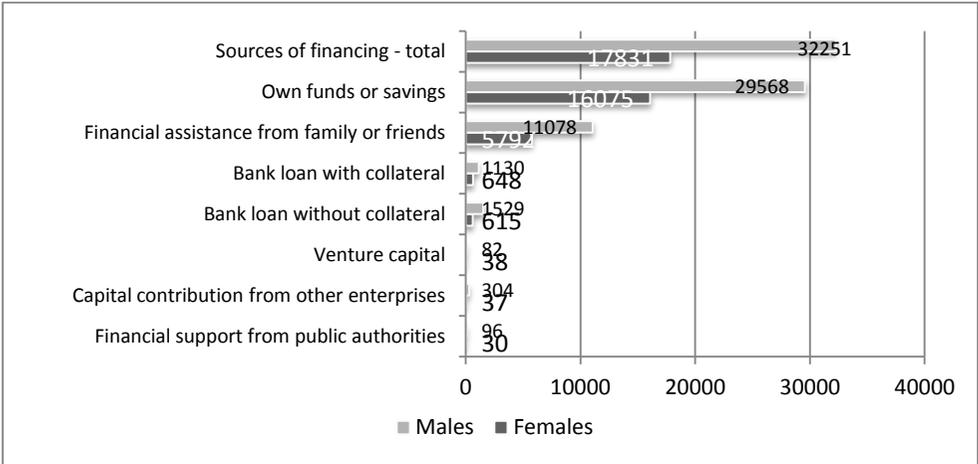


Chart 2. Sources for start-up financing, NACE industry and services, Romania, males and females, 2005

Source: based on Eurostat database

4. Conclusions and further implications

Main sources for start-up financing remain internal sources: own fund and savings, and financial assistance from family and friend, both for male and female entrepreneurs, both for EU as an aggregate and Romania, a new member state and still developing economy. Regarding the external sources, bank loans are the most important: they have been indicated by 17% of the females (EU) and 19% of the males, about 10 times more than the other external sources together: capital

contributions from other enterprises and venture capital. There are no significant gender differences in EU case, and also there are not in the case of Romania. Apparently, gender does not matter about sources used for start-up financing. The access to external financial sources is restricted for entrepreneurs of both genders: only 1 of 6 nascent entrepreneurs has access to them. The complete picture and comparison are shown in Table 1.

Table 1. Sources for start-up financing: males versus females, Romania versus EU (2005)

Source for start-up financing	Indicated by ... % of the females (EU)	Indicated by ... % of the females (RO)	Indicated by ... % of the males (EU)	Indicated by ... % of the males (RO)
Own funds or savings	81.98	90.15	86.77	91.68
Financial assistance from family or friends	30.46	32.48	25.03	34.35
Bank loan without collateral	5.74	3.45	7.24	4.74
Bank loan with collateral	10.9	3.63	11.4	3.50
Capital contribution from other enterprises	0.79	0.21	1.39	0.94
Venture capital	0.55	0.21	0.84	0.25
Financial support from public authorities	6.18	0.17	4.85	0.30

More than gender seems to matter the development stage and/or public involvement in policies and programmes fostering entrepreneurship. The most significant difference revealed by the data is related to the financial support from public authorities. The number of female entrepreneurs indicating financial support from public authorities as a source for start-up financing represents 6.18% in EU, versus 0.17% in Romania (36 times less in Romania than the EU average), while for men the figures are 4.85% in EU versus 0.30% in Romania (16 times less in Romania). Probably the gap is even bigger now, after implementing numerous European programmes in fostering women entrepreneurship.

After all, if gender does not matter, there other things that matters: entrepreneurship policies!

Some further research can be carried out regarding other things that matter: economic sector can be one, so different NACE in the EU database are to be studied further. And further policies should be enforced to promote, foster and support (financially included!) entrepreneurship, as an important key to economic growing and social progress.

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Sub-section: Economics

COMPETITIVENESS - GROWTH FACTOR. POINT OF VIEW ON THE SITUATION IN ROMANIA

Cismaş Laura

The West University of Timisoara, Faculty of Economics and Business Administration

Bucur Oana Nicoleta

The West University of Timisoara, Faculty of Economics and Business Administration

Pitorac Ruxandra Ioana

The West University of Timisoara, Faculty of Economics and Business Administration

Abstract: *This paper considers the issue of competitiveness of national economy, making specific reference to the economic situation of Romania in the year 2010.*

The diversity of views on approaches to competitiveness in the literature requires consultation of reports prepared by prestigious international forums and organizations, using relevant indicators and economic variables.

Keywords: *Competitiveness, economic growth, productivity, economic environment, economic efficiency.*

JEL Codes: *F43, O47*

1. Introduction

Competitiveness means the way in which nations and the economic environment given all powers to achieve its prosperity.

Competitiveness study allows "the possibility of comparing the performance achieved, and future growth potential" (Spataru) of the company and the economic environment.

Analyzing the structure and dynamics of the competitive system is also an element of absolute completion of analysis and relevant government decisions targeting companies involved in production activity (Airoldi, Brunetti and Coda in 2005: 322), all aimed at raising environmental performance national economy.

In economics, competitiveness is identified as the main active element in the procurement and delivery performance during the competition, the organization the role of 'the situation is in better position as compared to its competitor for the "defeat" for the purposes of reporting gave a performance criterion and followed by all competitors (Voiculescu 2001: 6).

2. Defining the level of competitiveness based approach

The concept can be approached at monoeconomic, macroeconomic and microeconomic level. In that respect this industry experts opinions on the definition depending on the level of approach:

- "Global competitiveness is a matter of economics that analyzes the facts and policies that shape a nation's ability to create and maintain an environment conducive to supporting and achieving better value for their enterprises and prosperity of its people"(World Competitiveness Yearbook).

- "Competitiveness is defined as that set of factors, policies and institutions that determine the current level of productivity of a country. Productivity determines both the welfare of an economy at a time, and its growth potential in the future. Empirical research has shown that developing a knowledge-based economy is one of the key factors enhancing the competitiveness of an economy"(Imbrescu and Băbăiță).

- "The competitiveness of markets, refers to the degree to which individual firms have the power to influence market prices or terms on which their product is sold. The individual firm has less power to influence the market on selling their product, the more competitive is the market" (Lipsei and Chrystal 1999: 252).

- "The level at which it generates is the microeconomic competitiveness. A country becomes competitive when you manage to build that environment that allows each company to become effective added value, to be able to survive or develop in any national economic environment, especially internationally. The level at which it maintains and strengthens the competitiveness of the macro. The country maintains or improves its profitability internationally when it decides to apply the set of economic policies necessary to stimulate the achieving optimum expansion at the micro level"(Spataru).

Creating a competitive system is an important issue and a policy of "Washington Consensus" for economic growth in developing states (Baumol, Litan and Schramm 2009: 52).

Representation of the competitive system, the example of a competitive economic market can be achieved only by extensive competition model representation. Competitive system structure: the competition extended) is a necessary condition of existence and developing a real competitive.

The four pillars of the macroeconomic level the competitive system are newcomers (especially entrepreneurs), customers (consumers), suppliers and manufacturers of goods substitutable (those who have the ability to conduct marketing pressures).

If new entrants can affect competition by larger volumes of production and reducing unit costs through a variety of products, manufacturers of substitutable products or services will be the source of uncertainty for new entrants if the price / benefit will be one

of those consumers' expectations accordingly have propensities for such goods.

Providers will become competitive in particular by focusing on service quality and price of services and clients, through negotiation and price elasticity will be the most important word to say.

The competitiveness suggests safety, efficiency, quality, high productivity, adaptability, successful, modern management, superior products, low cost.

In the battle for new markets, firms need to emphasize their strengths to gain the ground to competitors. Also they have to defend these benefits, known and recognized by constant efforts and also to know and accept that are the strengths of its competitors. At the same time, significantly increase the interest and effort to obtain business benefits both the domestic and international market.

Competitive or competitive ability is just that part on which power and economic strength of the economic conditions of a market economy. Therefore, development of competitiveness, acquiring and maintaining competitive advantage and effective use of the factors influencing it, is the main goal toward which all economic agents.

3. Implications of competitive markets in the growth states

The contemporary world has undergone a series of connections between markets and increasing competitiveness of the country's economic performance in the economic environment runs its business. In this respect shows experts in the field: "To be effective, must include an economic and profitable business based on competitive (...) the true economic substance produced by them, their profitability depends on economic strength and level to live the great country"(Verboncu and Zalman 2005:41).

The competitiveness of a country is assessed by its capacity (Gavrila 2009: 131):

- to export
- to attract FDI

- to harness resources and increase real per capita GDP

- prices were more positive than those of competitors, the offer is characterized by quality, diversity and timeliness

A national economy is competitive in the long term, they ensure the sustainable increase of welfare and population dynamics due to the high overall productivity of factors of production.

It is clear that the competitiveness of an economy depends decisively on the business environment, businesses are the engine of economic growth. Improve business access to factors of their participation in the European Single Market, investment in optimizing their industrial base, while respecting the principles of sustainable development is a critical prerequisite for the operation of the Romanian economy competitive.

As described by Michael Porter in the latest edition (2008) of his famous works, "About the competition, the competitiveness of a country do not relate primarily to macroeconomic stability, neither labor nor public policies, or practices management, but especially in productivity. A nation is competitive when it allows the development of the determinants of productivity and increasing productivity.

Depending on factors contributing to productivity, the report prepared by the World Economic Forum identified three stages in which the countries, namely:

Stage I: The competitiveness of production due to factors - factor - driven (force of unskilled or poorly qualified natural resources). The economy is particularly competitive because of lower prices, but the products are less complex. However, assuming the presence of certain basic conditions are essential (institutions, infrastructure, macroeconomics, health and primary education).

Stage II: Competitiveness by factors of efficiency - efficiency - driven (production more efficient, better quality products). Competitive conditions related to higher education and continuous training and ability to benefit from existing technologies.

Stage III: The competitiveness based on innovation - innovation-driven (new products from innovative, complex production processes).

The importance of individual factors, expressed by weight in the total contribution of the three pillars of competitiveness depends on the stage in which the country concerned.

Table 1 The pillars of competitiveness (on a scale from 1 a worst - 7 the most powerful)

Basic requirements	Score Romania
Institutions	3,7
Infrastructure	2,7
Macroeconomic stability	4,6
Health and primary education	5,5
Efficiency enhancers	
Higher education and training	4,3
Goods market efficiency	4,2
Labor market efficiency	4,3
Financial market sophistication	4,4
Technological readiness	3,8
Market size	4,5
Innovation and sophistication factors	
Business sophistication	3,8
Innovation	3,1

Source: World Economic Forum Global Competitiveness Report 2009-2010

4. Romania's place in terms of competitiveness in 2010?

According to the Romanian Institute for Social and Economic Research Polls - IRECSO, Romania is one of the last places among the 58 states, namely the 54th place, ahead of Argentina, Croatia, Ukraine and Venezuela. In front of us, at very short distance are Bulgaria (who score a 0.6% higher than the score of Romania) and Slovenia which has a spacing of 1.2 points from November. In the case of former communist countries until 1989 before we can see that under the current economic crisis, Hungary (42), Estonia (34) and Poland (32) have found solutions to increase competitiveness, Romania (54) and Czech Republic (29) retain their positions from 2009 to 2010, while Bulgaria (53), Slovenia (52), Slovakia (49) and Lithuania (43) have recorded substantial decreases ranging from 20 to 12 seats. For a better building on evolution, that the positions occupied in recent years, the Yearbook presents individual country specific contributory factors in terms of competitiveness and the disadvantaged.

In 2010 Romania registered a decline in economic performance, ranked 32 in 2009, ranked 47 in 2010. Although this chapter we have seen a drop of 15 seats still remain before countries like Greece (48), Russia (49), Turkey (50), Estonia (52), Slovakia (54), Ukraine (55) Lithuania (57). Regarding the efficiency of government, I dropped one place from 2009, topped 50. Regarding infrastructure, I grew up 10 seats in 2010 compared to 2009, peaking at number 43 in 2010, and Chapter Efficiency business, grew 13 seats, up from 56 in 2009 ranked the 49th place in 2010.

Unfortunately, Romania has made significant gains in terms of business efficiency and infrastructure were not enough to increase competitiveness as a whole, but given that the economic performance and efficiency of government Chapter I declined, maintaining the position of Romania in 2010, to 2009

levels is due the first two factors. Credit business is beginning to strengthen in recent years and investment in telecommunications infrastructure and in research are beginning to become visible, helping them to contribute in 2010 to maintain the competitiveness of Romania in 2009, the economic crisis.

Strengths of the business concerns in particular the progress made by the Romanian companies in their concern for customer satisfaction for a proper wage service sector, and staff management positions, at a salary that is comparable to that in other EU countries.

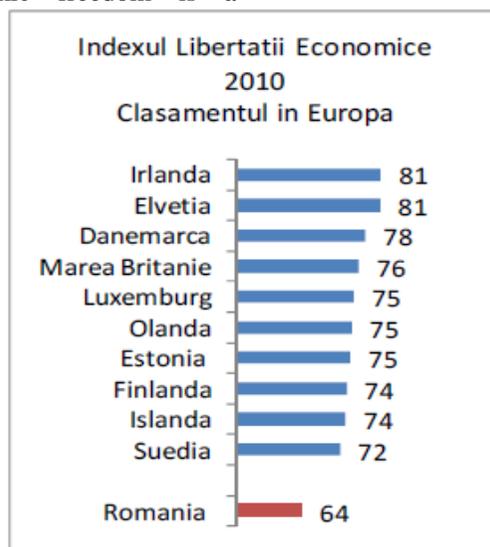
However, to further strengthen the business environment we need to improve some aspects which for 2010 is still the weak points in terms of competitiveness, namely: the need for specialists in finance raised by the need to increase the capacity of Romanian companies' adaptability to market changes the need to increase transparency of financial institutions in Romania, the stock market decline, and finding solutions so enterprise debts not restrict their ability to be competitive.

Negative aspects (aspects of which Romania is ranked the lowest in the context of global competitiveness) in terms of economic performance are related to direct investment abroad, investments in capital markets abroad, receipts from tourism and real GDP growth.

Even though the Chapter Efficiency sit well in the government's total public debt and collect taxes on income, weaknesses in the system in terms of competitiveness in 2010 relate mostly to the lack of public contracts open to all bidders, the black market economy that does not allow and competition law can not stop unfair competition.

In conclusion, overall, we assess the competitiveness of Romanian economy as a "disappointing performance." In many ways they are signs of competitiveness, competitiveness appears other way to start, but in most economic indicators speak for lags, lack of competitiveness.

Heritage Foundation and Wall Street Journal Index of Economic Freedom determines (S), assuming that economic freedom is a precondition for prosperity of individuals and in turn a key driver for competitiveness.



Source: *Index of Economic Freedom, Heritage Foundation, 2010*

Chart no. 1 Rating States of Europe according to ILE

According to the results of this study, the 2010 edition, Romania is the 63rd country in the world in terms of economic freedom, and ranked 28th in Europe.

The Heritage analysis, Romania has achieved a 64.2 index points above the global average. After comparing the first countries in Europe, according to each indicator of economic freedom, Romania has high scores for: free trade, fiscal freedom, government spending, and significantly lower scores than the best countries in Europe obtained if : property rights and freedom from corruption, as these areas are necessary for developing solutions.

Results of the study conducted by the Heritage Foundation shows that Romania's economy is moving towards a greater economic freedom index.

5. Conclusions

For Romania, economic competitiveness is a major component of national development strategy for 2007-2013. For this purpose a special program was developed (Sectoral Operational Programme 'Increasing of Economic Competitiveness 'SOP) in accordance with the Lisbon strategy on improving the economic competitiveness of the European Union.

In full accordance with the conduct of the Commission's proposals for Competitiveness and Innovation Framework 2007-2013, the priorities of Romania's competitiveness strategy, which take into account and take into account the guidelines proposed by the Commission for Cohesion Policy 2007 – 2013, are:

- Improving access to emergency market, capital, technology businesses, especially small and medium enterprises;

- Developing knowledge-based economy: including the promotion of innovation and development of a competitive;
- Improve energy efficiency and use renewable energy.

Competitiveness, although often studied in recent decades even in Romania, remains a qualitative concept, draw conclusions on the competitive status is rather the depth of analysis, the information behind it, the evaluator's experience and, not least, points of view that makes analysis.

Acknowledgements:

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2. "This work was partially funded by contract POSDRU/CPP107/DMI1.5/S/78421, strategic project ID 78 421 (2010), co-financed by European Social Fund - Invest in People, by Human Resources Development Operational Programme 2007-2013".

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DYNAMICS ECONOMIC DISPARITIES IN NORTH-WEST REGION OF ROMANIA

Florea Adrian

University of Oradea Faculty of Economics

Abstract: *Even though over the years has enjoyed wide media coverage, with highlighted aspects, discrepancies and inequalities of economic potential between different regions of the world, or even parts of the same countries always remained topical. Difficulties arising from these differences were always felt, extremely painful by humans.*

Analyzing distinctly, participation of each county to the GDP of the Northwest Region and the composition of all indicators, we can identify significant discrepancies between counties, regions and municipalities. This is one of the reasons that led us trying to identify the causes that generated the current situation. From the perspective of the contribution of each county in the Northwest Region to Region's domestic product composition, the first place is taken by Cluj county 32.3%, followed by Bihor with 24.3%, Maramures, with 14.9% Satu-Mare, 12.1%, Bistrita-Nasaud, 9.1% and 7.2% Salaj. Consulting of the Regional Operational Programme 2007-2013 indicates that the poorest areas in the Northwest Region are in Maramures and Bistrita-Nasaud.

An important part of the active population of North-West Region was employed in public enterprises and an increase of unemployment in the counties of Salaj, Satu Mare and Maramures became predictable, imminent amid restructuring of public enterprises with losses. Studies of employed population by sectors of the economy, shows a high rate of population employed in services in the counties of Cluj and Bihor and high employment in agriculture on other four counties. In a modern market economy, services are most concentrated labors, and how the workforce is distributed in the Northwest region also shows an imbalance. How Northwest Region is participating in international economic cycle has major effects on the population's living standards. Relevant for the inter-district disparities analysis is the human and agents behavior analysis and the savings and loan relationships. How people behave in these ratios in each county tells us much about their economic profile.

Attenuation of long distance gaps in the Northwest region remains a very complex problem, attempts to decrease it, is bringing into question, not infrequently contradictory strategies. Supporting the few remaining state-owned enterprises in the region could lead to a revival of activity, attracting attention of foreign investors can thus lead to recovery of much of the labor resources of the Region. Expansion and modernization of transport and distribution networks would provide a further chance to faster development of the North-West by exploiting the growing regional economic resources available, enhancing economic relations both intra and extra regional.

But we can not fail to mention the part state should play in orchestrating these measures. Despite the independence of regions, they are subordinated to the central administration, and strategic investment policy depends to an overwhelming extent of it. Only by linking effective measures at national, regional and local level will alleviate the sustainable economic gaps.

Keywords: *disparities, restructuring, reforms, investments, consequences*

JEL: *E01, E24, J11, R12, W24*

The issue of disparities and inequalities of the economic potential existing between different regions of the world or even between regions of the same countries always remained valid, despite the fact that over time it has received wide media coverage. Difficulties arising from these differences were always felt particularly painful by humans.

Currently, the economy is characterized by an increased mobility of all its components, and economic disparities have begun to worry more and more economic researchers. As a result, simply finding the economic disparities is not satisfying anyone anymore. Maybe that's why people who believe that it is necessary to identify the necessity to maintain and deepen the gaps identified cases depending on the particularities and specificities of each area. It must also decipher their consequences, because they are not limited to the current period, but designing, influencing economic relations on a longer period. In the spirit of the statement we want to present an analysis by geographical regions, North-West of Romania. Among the envisaged objectives we include: identifying the causes of economic disparities emphasis of inter-county geographic area North West of Romania, which are the economic effects of these inter-district disparities

According to information provided by the Regional Development North West Agency, the North-West region (northern Transylvania) is close to European markets, with good road access, rail and air has a strategic geographical position, being the gateway to Romania from the European Union and Ukraine. Even if the region is crossed by 7 European roads, has peripheral position over the European transport corridors, the connection with eminent poles in the neighborhood, with other regions is still difficult. According to the same sources,

the North-West of Romania has an area of 34,159 km² representing 14.3% of the total area of the country. Part of this region are the counties: Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu Mare and Salaj having a population of 2,744,914 (14.32% of the total population of the country) and has an average density of 80.1 inhabitants per square kilometer. For that is the number of administrative-territorial units (421), distributed as follows: 42 cities including 15 municipalities, 398 communes and 1823 villages.

Analyzing separately each county participating in the formation of regional GDP and the composition of the indicators, we can identify significant discrepancies between counties, regions and municipalities. This is one of the reasons that led us trying to identify the causes that generated the current situation.

From the perspective of contribution each county has in North-West Region's domestic product formation, first place is taken by Cluj county with 32.3%, followed by Bihar with 24.3%, Maramures, with 14.9% Satu-Mare, 12.1%, Bistrita-Nasaud, 9.1% and 7.2% Salaj. Consulting of the Regional Operational Programme 2007-2013 indicates that the poorest areas in the Northwest Region are in Maramures and Bistrita-Nasaud. Here were identified most areas of industrial decline. Intra-regional differences are closely related to the degree of industrialization, the counties most powerful and industrialized early - Cluj and Bihor - having a high proportion of the employed population (44.5% and 45.7%), while less counties and later industrial - Satu Mare and Bistrita-Nasaud - have lower weights (39.6% and 38.0%). Un-industrialization has led to a restricted job use in industry in counties of North-west, but with large differences from one area to another.

Table 1 Unemployment in North-West

	2007	2008	2009	2010
Bihor	2,4	3	5,8	5,8
Bistrița	2,4	2,8	8,2	6,3
Cluj	3	2,9	6,3	4,9
Maramureș	3,4	3,7	6,4	6
Satu Mare	2,6	3	6	6,3
Sălaj	4,4	5,5	10,3	8,2

Made by author based on information found on the website:

<http://www.insse.ro/cms/rw/pages/buletinStatJud.ro.do>

An important part of the active population of North-West Region was employed in public enterprises and an increase of unemployment in the counties of Salaj, Satu Mare and Maramures became predictable, imminent amid restructuring of public enterprises with losses. Other areas in decline are: the Apuseni Mountains and the northern mountain area. Mining sector restructurations has affected this sector and led to massive layoffs in the area of Baia Mare-Borsa-Viseu.

A lower number of unemployed in Cluj and Bihor to the major foreign investment, which have diminished, even partially, the effects of industry restructuring. North-West has attracted a relatively high number of firms with foreign participation, sometimes grouped in clusters (eg major foreign investors in Bihor County - primarily producers of technological equipment). But we can observe that they are generally SMEs, who often work as subcontractors or contract work or operate based on business ties, traditional Western Europe. It should be noted that SMEs present in the Northwest region of the country accounts for 15% of the national total. The existence of foreign investors to operate in the same field at the same time can create both advantages and disadvantages. On Bihor 's labor market multinationals had a visible contribution to the unemployment rate and the constant increase in demand for qualified manpower, services development.

Studies of employed population by sectors of the economy, shows a high rate of population

employed in services in counties of Cluj and Bihor and high employment in agriculture on other four counties. In a modern market economy, services are most concentrated labors, and how the workforce is distributed in the Northwest region also shows an imbalance. Counties in which the employment of labor resources is higher in services, like Cluj and Bihor, also raises the level of economic development compared to other counties.

The presence, quite shy, of industrial parks in the Northwest Region counties, and also their unequal distribution in the Region, is supplying the gaps. We notice the early existence in Cluj County of three industrial parks: Tetarom1 Cluj-Napoca, Cluj Napoca Tetarom2 , Dej ARC Park, which attracted investments of hundreds of millions of euros. A significant impact on the local economy has the making of the industrial park of the Finnish giant Nokia (Tetarom3), Nokia investment reaching half billion euros. Existence in Bihor county of those two industrial parks, one located in Oradea and one in the west of the county, between Oradea and the border with Hungary, has created a domino-type effect, attracting other foreign investors and companies. So Shin Heung Precision of Korea, U.S. Plexus that made investments of over EUR 20 million and a Canadian company that produces equipment (Celestica) made an investment of over 84 million, those 3 assuring to employ over 3,000 people. In other county we could see 25 million euros invested by the French

company Michellin in a tire factory in Zalau, the Natuzzi Italian corporation in a furniture manufacturing facility in Baia-Mare in the amount of 40 million euros in Satu Mare Schemmer German company has invested 10 million euros in the production of tubes for cable protection, and in Bistrita-Nasaud a germany company Leoni Wyring System's presence is noted, producing automotive wiring, but also companies with Italian capital such as Tesitura, Italtexil and Storia, active in textiles field. In all counties in the

region, except Bistrita-Nasaud, industrial parks have been established.

The top foreign investors in the county of Cluj is the leader of the Region, and placing their capital where conditions exist for achieving higher returns. All these elements lead to the development of the labor market, bringing financial resources, significantly reducing the unemployment rate, while generating an increase in GDP per inhabitant (Table 2).

Table 2 Average monthly wage

	Salariați (raportat la totalul populației) (%)	Salariul mediu net lunar(euro)	PIB (pe cap de locuitor)
Bihor	27,3	249	5550
Bistrița	19,2	261	4712
Cluj	28,5	345	7100
Maramureș	17,8	235	4090
Satu Mare	19,5	259	4459
Sălaj	17,6	265	4337

Source: National Commission for Prognosis <http://www.cnp.ro/ro/prognoze>

In the Northwest Region, we noted important differences between the counties both in terms of number of employees compared to the total population, the net average wage, and GDP per inhabitants. A cause of this situation may be the preference of investors to place capital in more developed counties, such as Cluj, at the expense of others. Another effect of the existence of gaps in the North West is population migration. If the external migration is already well known, became a phenomenon very carefully studied by the European institutions, migration between counties in the Region being seriously considered, to my knowledge, until now.

Relevant inter-district disparities analysis is to analyze the behavior of the population and the savings and loan relationships. How people behave in these ratios in each county tells us much about their economic profile.

The information presented in the table 3, allows us to identify different behaviors for each of the counties residents regarding loans and deposits. As expected, most of the loans (in absolute value) are in the county of Cluj, followed in order by Bihor, Maramures, Satu Mare and Bistrita-Nasaud. Perhaps more relevant is the percentage of outstanding loans, Cluj and Satu Mare, where only 9.8% and 9.1% of total loans, Bistrita-Nasaud most delicate position having 18.2% of total loans, while the values of Bihor and Maramures 13.2% and 11% standing in the middle somewhere.

Following the structure of loans, it is noted that in the Maramures home credits do not exceed 31.7% of total loans to the public. The explanation could be given by the fact that a large number of Maramures people are working abroad, money they send being used primarily to create new residential areas, so the necessary credits for this area is

smaller. Cluj in turn, has the highest share of housing credits in total loans, approximately 42.44%, this being due to increased development of the area in recent years, the number of students who chose Cluj as the city of residence after graduation, relatively high price of real estate in this area compared to other areas as well as greater employment and income more consistent work performed by

residents in the area. Bistrita, Satu Mare and Bihor have comparative value of real estate loans in total loans ratio, with values ranging between 34% and 36%, remarkable being the fact that in absolute value Bihor is ranked second after Cluj with a double value total loans and real estate compared to the other counties.

Table 3 Information on credit report in the Northwest Region (mil. RON)

	Total credite Lei și valută	Total restante Lei și valută	Total credite populație Lei și valută	Total credite locuinte Lei și valută	Total depozite la termen lei și valută
Bihor	6071.9	1788.5	2575.8	645.3	2395.8
Bistrița	2135.5	809	1170.2	290.3	1026.7
Cluj	9197.8	862.8	4694.9	1574.7	5583.6
Maramureș	3107.9	264.5	1445.1	305	1524.9
Satu Mare	2632.1	193.1	1099.4	266.5	1040.1

Source: *BNR – Territorial structure of non-bank loans and customer deposits*
<http://www.bnr.ro/Indicatori-agregati-privind-institutiile-de-credit-3368.aspx>

Attenuation of long distance gaps in the Northwest region remains a very complex problem, attempts to decrease it, is bringing into question, not infrequently contradictory strategies. Supporting the few remaining state-owned enterprises in the region could lead to a revival of activity, attracting attention of foreign investors can thus lead to recovery of much of the labor resources of the Region. The level of resource utilization services sector should also be carefully considered.

Expansion and modernization of transport and distribution networks would provide a further chance to faster development of the North-West by exploiting the growing regional economic resources available, intensifying economic relations both intra and extra regional.

But we can not fail to mention the part state should play in orchestrating these measures. Despite the independence of regions, they are subordinated to the central administration, and strategic investment

policy depends to an overwhelming extent of it. Only by linking effective measures at national, regional and local level will alleviate the sustainable economic gaps.

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ABOUT OTHER KIND OF PRODUCTIVITY AND GROWTH (HOMO-SAPIENS TO HOMO-OECONOMICUS)

Jivan Alexandru

Universitatea de Vest din Timișoara Facultatea de Economie și de Administrare a Afacerilor

Abstract: *Part of a larger research, this paper ranges among the matter of ideas confrontation concerning the causes of the economic crises and those keys to be passed. Paper aims at finding and praising the defining elements of our economy, in the purpose of better understanding the nowadays crisis, and at presenting certain conceptually different approaches. In this purpose, analytical presentations are focussed on the specific realities of the economic life that are in position in the last centuries, which are considered to be favouring the arriving to the critical states in the last years and to be promoting those maintaining, or which allow explaining certain effects and tendencies.*

The approach is made from the angle of the nature of the productivity that is had in view and highlighted in the market regulating mechanisms, and of the due growth. The paper is grounded on important analysis on the matter (including anterior researches of the author), but their dimensions does not allow their presentation in the abstract. Analysis starts from interpreting the very nowadays crisis, from different sites concerning the core (general) causes, by correlating with certain features of the industrialized consuming society. More recent references are made in the literature on the matter. Modern western economy is defined from the angle of focussing on material-quantitative productivity and growth. Analysis tries to explain certain effects concerning this kind of focus. Interesting effects and tendencies are noticed, that miss to the traditional approaches. Further on an opposed theoretic model is discussed. This is built and developed inside the service economy (on the case of two conceptually similar approaches, came from two different sources of economic thought in the field; original contributions of the author are involved). Adequately to the knowledge society, this last one is considered more favourable for homo sapiens, at least once the visible effects of the last two hundred years model are revealed, which are dominated by homo oeconomicus. This reference model being set up, a short foray is intuitively made in the perspectives of humanity on long run and on very long time, in the supposed maintain of the present economic model. In all those presentations and analyses, connections are made with other papers on the matter, in the purpose of more profound study.

The conclusions concern the practical possibility of the model opposed to the industrialist economic crisis. The details highlighted from the analysis of the conceptual comparison between models and prospections bring, in the final, at proposing solutions, grounded on fundamental requirements on the line of humanity's values, with didactic addressing to the young generation. The elements of contribution of the author are underlined in the presented matter.

Keywords: *productivity, modern growth, economic crisis, knowledge society, service economy*

JEL: *A13, H49, I25*

1. Introduction

The nowadays crisis looks like a systemic crisis of the whole life of humans that was (and still is) approached in the modern tidiness, just like in the times of industrialization.

It looks like humanity arrived to the limits of a way of living that proved itself to be destructive for the planet and for the living of our own species on a very long time.

That what is certain is that, for Romania, the crisis is total: Romanian scientific research rather does no more exists, that we are

integrated in Europe on positions of a marginal country, that Romanians are importing the most of the apples and potatoes they eat, that our country is in enormous debt to the foreign banks, that the Romanian education lost all its chances to come back to the performances it had two decades ago, that the health of the population is under the impact of certain decisions of the same (and rather generalized) principle of elimination (and not of construction) etc.

For the analysis of Romania's economy can be invoked the exceptional book of Marius Băcescu and Dionysius Fota (Băcescu and Fota, 2009).

In this paper we will bring the discussion mainly in the field of *service economy*: this was that what made possible the necessity of approaching productivity, efficiency and growth in widened horizons to be seen. It happened in the postmodern epoch, when the traditional view was replaced, by taking into account certain social aspects and other, more than the monetary narrow economic. For a Short Literature Review, please also see the chapter no. 4.

2. The crisis of the world as a capitalist extensity spread

In opposition with the well-known growing intensity by industrial means, that is usual and preached in the theories concerning the modern world, the consuming society meant rather a simple spread of a model – the capitalist one – as Issac Johsua shown (Johsua, 2006). In the chapter 7 „« Nouvelle économie » ou l'utopie du capital”, the author we cited speaks about “over-accumulation” of capital, meaning accumulating it in a rhythm that the economy cannot support, on a long run, the profit ratio anticipated by those who supply the funds. The financial capital of the world brought us in crisis, sais Issac Johsua. This research, published before the nowadays crisis, speaks about the generating conditions of what followed – as we have all seen. “The crisis of «the new economy» was not surmounted, but only stocked in the

accumulated lack of equilibrium”, sais the author at pp. 240. The superficial character, from the economic point of view (founded on “moment solutions”, having beneficial results in the short run, but generating spread effects, including in the long run, aggravating effects) is exceptionally synthesised when Johsua shows that, in critical situations, “America rescued itself just as it lived: on credit. The pick up again was so realised, not by reducing certain anterior dysfunctions of the American economy, but contrary, starting from them, by increasing them.” (pp. 243).

The central goal on the market (and the criterion of “selection” by “competition”) is the gain, found in computed productivity. The method consists in cheating models of economy, by evading its genuine roles of *tool* for covering people's needs; and, by this, the economy is preached like a goal by itself; the slogans of liberty and of “fair competition” in the economy, but the economy that is producing those which are really *necessary* (economy that was dominant two-three centuries ago) is let in the outside of the efficiency: there is *else* that the market acknowledge and admits as rewarding and moneymaking; i.e. the gains are from winning in the “fair” competition, including the intense exploitation of the natural reserves, speculation etc.

A main result is that primary needs, as food, and flu and tuberculosis cure) are abandoned to the market laws, *at a subsistence level*: they are maintained in this way in the “poverty trap” (this matter is developed in our paper Jivan, 2008).

The existence of mass poverty also annulates or maintains to a minimal level the qualitative improving trends – which should be correlated with the increase in the price. The price increases very much, for relatively low improvements, for strictly opulent improvements, for advertising and mostly for good indicators established by the rate agencies (which are private firms and have private interests too); quality decreases for

the low price levels – having as a unique alternative the total give-up to those supplies. Prices are judged not in function of the quantities, but according to percentages of the revenues allocated to those buys. So, the situation (the current, given situation), of the existence of significant revenues above the fundamental needs (which can receive the most varied destinations, it is too little in the direction of improving or increasing alimentation) generates this marginal state of agriculture in the capitals beholders' economic action options. The issue of sponsoring agriculture is a mechanism which is external to the market, from outside the free competition, which tries to correct a situation (fair from the market logics point of view), which risks leading to a dangerous diminishing of the agriculture weight in the entrepreneurs' options.

The suppliers remain attracted – according to the market criteria, as well – by the luxury consumptions segment. Disequilibrium at the individuals' level results (Jivan, 2008). The optimizing system does no longer work, as well as the self-regulating mechanisms. A waste of values, of resources, of efforts result; this generates inflation.

3. Usual perceptions, including in the periods of crisis

It was shown (Jivan, 2010) how, in the traditional (classical) economic model, profit and interest are usually seen as varying with capital amount, economic growth being generated by material investment, which is about quantitative growth of tools, machines, money and other forms of capital employment for production which generates quantitative growth of production. But the economic growth can be better generated by growing returns: productivity and the quality of being lucrative are given by innovation, information, knowledge, science, brains, including the results of human capital formation and education; growth is varying with inter-relational growth and with intellectual factor. (Jivan, 1995).

The usual angle of approach and level of analysis is that of the accountants' books, as well as the source of data; but in the accountancy books of *business*, the place of such services may be less important than the place industry takes, even if the genuine essential generation of things has another logics (from Jivan, 2009). The understanding of the economists must go above the *businessmen's* reasoning.

Such a wrong approach is also in certain government policies concerning education and scientific research. Unfortunately they let us see the state of our country.

We discussed the materialist fallacy (classical, or Marxist); it is a big mistake to see mostly the expenditures in services (and blame them all as a whole), because of their immateriality – proving lack of understanding. We have also seen the consumption fallacy (Keynesian). They are as fallacious as any other exaggerations, like any speculating production, aiming exclusively to gain, with no respect for its environment (Mother Nature, social, moral environment). Any activity can be destructive (Jivan, 2010). But at aggregate economy scale (national, world-wide), useful performances are mutual, mostly, one way or another, at least by the mediation of the generalized market (see here our synthesis on the market as global servicing, in Jivan 1996).

Knowledge society implies an opened minded view and an interdisciplinary vision, which are superior to the narrow economic approach, including the care for the social problem, for the planetary environment and such like, among which moral-institutional aspects are also important. Even production and consume are replaced with “functioning” and with the creation of utility; and the place of immaterial activities is really central.

The choice between ways should not be a dilemma: the best permanent answer is *aurea mediocritas*, *the equilibrium* and avoiding any extreme and narrow view.

4. An opposite model

On the line of research opened by service economy, observations, critics and proposals were made at micro as well as macro-economic levels. Between those many research, we mention here only these realized by Jean-Claude Delaunay, Jean Gadrey (like particularly Delaunay, Gadrey, 1987 and Gadrey, 1992 and others), Jacques de Bandt (De Bandt, 1991), Orio Giarini (particularly Giarini, Stahel, 1993 and Giarini and Lauberge, 1997), André Barcet, Joel Bonnamy and many other authors (particularly the papers in *Revue d'Economie Industrielle* - no. 43, 1988).

Jean Gadrey (Gadrey, 2010) criticizes the industrialized economy, speaking (at pp. 88) about the “double dictatorship”, (i) of the world markets (that are not regulated) and (ii) of the agricultural “liberal-productivist” politics. He requires a more complex analysis of the productivity of an industrialized production process: not just the growing productivity of the modern tools and machines, but also the time of work consumed for their fabrication should supplementary be recorded as a cost; a cost that should not be ignored. He also proposes the deduction of the estimated value of the big damages involved by industrialized and chemical production (including in food) and long distances transport: those damages should diminish the pretended growth that modern industrialized productions pretend realize.

Gadrey argues (pp 85-86) that the usual theory of growth and productivity is interested only by the quantitative aspects, making no difference between an output that is protective for Mother Nature, not-polluting, ecologic, on one hand, and an output based on big consumes and waste of energy and less healthy for humans or even worse.

Gadrey speaks about the fact that an investing economic activity and a consuming one are considered to be „equivalent” in the numerical usual analyzes. There is a comparison made by quantitative criteria,

with no respect to the qualitative and more profound aspects.

All those critics and recommendations are revealing critical aspects of the usual productivity and growth models. In contrast with the usual (growing, industrialist) model, he proposes, in his large-hearted approach, a new one, using a “new type” of progress, the true progress, profound, not just superficially quantitative and not only on the short run.

Another approach is that of *servicity*, proposed like an extension or even a rebuff to *productivity*, at *The 9th Seminar on the Service Economy* (PROGRES – Programme of Research in the Economics of Services, A.S.E.C) in Geneva, September, 6th -7th, 1993. Firstly included in a paper published in the review of *Services World Forum* (Jivan, 1993), the concept was later developed in other papers and books. The concept of *servicity* is grounded on the point of view in the modern marketing optics and on service economics.

The concept we call *servicity* would mean exactly the effective *intrinsic* productivity, the effects of human activity consisting in generating *general* and *absolute plusses*. It is in opposition with *computed* productivity, generating palpable *concrete plus* to the concerned individual, therefore *relatively* to a specific economic agent (with no concern with the rest of the world, with the ensemble). Such approaches prepared the conceptual field for the European requirements of knowledge society and knowledge based economy, of more seriously taking into account the natural and social environment. Ulterior, the ideas were developed, and between the most recent exemplificative research we mention those on innovation, productivity and performance, of Faïz Gallouj (Gadrey and Gallouj, 2002, Gallouj and Djellal, 2010), Faridah Djellal (Djellal and Gallouj, 2008) and others.

As concerns the matter of indicators, between the preoccupations in the field, we limit us to mention only about the important European project known (shortly) under the name of

Stiglitz – one of the two big Nobel Laureates economists who are mastering, together with Amartya Sen, those research, to what work numerous and other big specialists.

5. Long term prospects of humanity

Mankind should see that, in business practice, the narrow pursuing of the goals of profit (and calculated productivity growth) and the interest and gaining principles, brought us in the position of buying the water from stores (please see the developments of the matter in Jivan, 2011), and there already are first signs of buying also the air (another vital genuine resource) on the market in a foreseeable future. The bear conditions for life are *sacrificed for gaining more money*. In these conditions, mankind should apply another widening of horizons, like Marshall made (please also see our Jivan, 2011, where from is the presentation here): the impact of the activity of people on the environment, the impact on Mother Nature and, implicitly on its own future (on a longer time that market can appropriately manage) should be considered.

Humans can already see that the most important must be the *entire existent* (the notions of Nicholas Georgescu-Roegen can be used or Gheorghe Popescu's „the Joint Living Whole”, in Popescu, 2006), including the environment, and the *utility and costs*, for it, of the output, of the whole economic activity and of any human act. People should no more use only the individualist approach, and should take into account not only the economic actors (both buyer and seller), but also the others, directly involved and not involved, present and not present, the entire environment of the persons directly decisive in the trade, from the most comprehensive point of view: in the space as well as in the time dimensions. It includes the whole human society, Mother Nature, the Planet, the not-yet-born generations. And it takes into account different means and fields of action in the human society.

Centuries of industrialism and market domination passed and the effects of the market values (determined by short and medium interests and regulated on the long run only by mercantile criterion – costs, gain and profit) become to let be seen the planet destruction.

In such a widened approach, firstly the economic science (and, by time, all humans) should take into account the *costs and effects for all* the parts of the reality that are affected, even if they are active or passive parts, even if they wanted or wanted not to participate to the processes of humans' economy, even if they were not warned or they did not know at least that they are involved in the economic process and effects, even if they are present or not yet born.

Furthering what Marshall made, we could surpassed the strictly economic angle of perceiving reality, which proved already to be also too narrow: we should introduce a third category of time, for having a more complete comprehension of events, in space and also in the historic view. The short run and long run must be completed with the very long term, proving the historical capacity of perception of our human species. In the post-modern understanding of realities, humans must already have the clear-sightedness to accept that if the same way of living is persistently pursued, no chance will remain.

Georgescu-Roegen hardly tried to teach us about another kind of economics we should study, learn, teach and apply, but he was marginalized (Georgescu-Roegen, 2009) – may be precisely because of this attitude.

6. What can we, still, make?

In despite of the usual principles of competition (invocate also by the economic traditionalist approach – still dominant), the special human (superior to the strict economic and short run) principles are surviving, (even in poorness or in societies what are week from the economic point of view), like also a big enough number of their bearers and preachers. Their extension and spreading is not an exception, but a tendency, mostly in the knowledge society: it is and should be consistent with it.

The mercantile values represent just a tool and must remain a tool. In our times, *homo-sapiens* must now show his *superior knowledge and thinking*: superior and much more widen than the simple economic one. And must teach and *widen the mind of homo-oeconomicus* too. *This is the fight of our times*. The task is in the field of learning and of teaching the young generations, not in the spirit of private speculation, but in the team spirit of work, care and concern for the whole environment, as a common good for living. *A superior rationality must be put in*.

The economic functioning can be oriented on realizing the general well-being and on attending the interests of the whole *human* society, exactly and just by a well-considered and well-settled legislation – which points out the optimizing valences of the market mechanisms. (Jivan, 2009).

Science has the new task of knowing how and when the market mechanisms act in an improving direction: “how and when” means the legal *conditions* requested (*that society should settle*). A superior outlook upon the final (compensated) results of the efforts and effects of any human activities is necessary. Efficiency should not be no more narrowly limited by the economic criteria, but should concern the best for the person, for the society, for the world, balanced between the present and the future. Taking into account the disequilibrium we spoke about, we propose analytical studies concerning a certain criteria system in the matter.

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THE POTENTIAL OF FEMALE ENTREPRENEURSHIP AS A REGIONAL GROWTH AND DEVELOPMENT ENGINE IN THE WESTERN ROMANIA

Pop CoHuț Ioana

University of Oradea, Faculty of Economic Sciences

Abstract: *Starting from the objectives, activities, and the results of the empirical, quantitative, and qualitative research carried out in the AntrES project (AntrES - Project acronym "Entrepreneurship and Equal Opportunities. A new school for women entrepreneurship" – Antreprenoriatul și egalitatea de șanse. Un nou model de școală antreprenorială pentru femei), during the two years of implementation, in the Western Romania referring to the new businesses start up; business development; the motivation and difficulties of female entrepreneurs and potentially enterprising women; of their perceptions regarding the need for entrepreneurship education, the role of female entrepreneurship promotion and the impact of the successful models on new businesses start up – this paper presents directions of action meant to emphasize and support the potential of the female entrepreneurship in Romania, as a regional growth and development engine.*

Keywords: *women entrepreneurship, new businesses start up, regional development*

JEL Codes: *B54, H81, M13, M21, R11, R28, R53, R58*

REL Codes: *13C, 14D, 14 K, 16H, 18F, 18G, 20J*

The potential of female entrepreneurship – as a research subject

The analysis of the potential of female entrepreneurship in Romania starts from the premise that encouraging and supporting new businesses is one of the most important economic and social activities due to the impact on economic growth, innovation, job creation and the rise of living standards (Brush Candida et al., 2007). The literature in the field shows that women play an important role in the economic activity in many of the world's economies (Minitti et al., 2005, apud Brush Candida et al., 2007). According to Global Entrepreneurship Monitor (GEM, Reynolds et al., 2003), women represent 33% of the total of those initiating a business, with variations from a country to another according to cultural factors, natural and industrial resources together with the policies meant to stimulate the entrepreneurship and the attitude and faith in the female entrepreneurship. Although the number of business women is increasing, the rate of female self-employment is systematically

lower than that of men (Schimidt and Parker, 2003, apud Brindley Clare, 2007).

For Romania, studies show that for all the development regions, the most important problems in stimulating the spirit of female entrepreneurship are the low density of SMEs, the limited entrepreneurial culture, the reduced entrepreneurial spirit, especially among women and mainly in the rural area, the lack of programmes promoting entrepreneurship, especially female entrepreneurship, the lack of programmes supporting self-employment initiatives.

Taking into consideration these aspects, our research is trying to emphasise that through measures educating the entrepreneurial culture among women – as a determining factor of self-employment, the percentage of those setting up a business may increase significantly with a direct impact on the regional development. In our opinion, this aspect is significant, taking into account that we are referring to a single measure – that of educating and motivating the female entrepreneurial spirit which can, correlated

with measures supporting the access to financing, improving the social assistance system and especially supporting children's raise and education (Brindley Clare, 2007), lifelong learning (Drumond, 2004), supporting the development of the business (Brindley Clare, 2007), promoting the female entrepreneurship by successful business women, promoting good practices, determine the significant increase of this objective, underlying the still unexploited potential of Romanian female entrepreneurship.

Objectives and directions of action – aspects regarding the research methodology

Taking into consideration these premises, our research was delineated on at least three directions, of those mentioned above, that is:

- to ensure the female entrepreneurial education for the support of new business start up;

- to support the development of already initiated businesses;

- to promote and motivate the female entrepreneurship.

Our three objectives could be materialised by implementing the project **“Entrepreneurship and Equality of Chances. An Inter-regional Model of Entrepreneurial School for Women”** (acronym **AntrES**), implemented in the North-Western and Western Regions of Romania (counties Maramureş, Satu Mare, Bihor, Arad, Timiș, Caraș-Severin)³², which had as objectives, among others:

- *to provide training in order to acquire capabilities in the field of business start up; to provide training in the field of entrepreneurial culture formation and promotion, in order to improve the level of knowledge regarding a successful business initiation, organization, and working;*

- *to provide training for women in the field of business administration and development and to favour the improvement of the entrepreneurial*

spirit within the SMEs having women as managers or administrators;

- *to promote and stimulate the entrepreneurial spirit among women so that they can behave as active entrepreneurs; to promote active learning, lifelong learning, including the e-learning methods and techniques; to promote the competition spirit by organizing contests and awarding the best business plans.*

AntrES project addressed a number of 1800 women of the six counties situated along the Romanian Western border, grouped into three target groups. The first target group is made up of 288 women, *SME managers, wishing to develop their business, from the counties situated along the Romanian Western border (Maramureş, Satu-Mare, Bihor, Arad, Timiș, Caraș-Severin)*. It concerns, at the level of each county, a number of 48 women managers who have been trained in the town where they work, as it follows: 24 at the territorial centre situated in the county capital city and 24 at the level of local centres (6 for each of the 4 local centres in each county), respectively a total of 288 women in all 6 counties. For this target group the project had in view the improvement of the intra- and entrepreneurial managerial skills in order to develop the existing business, to optimally use the opportunities existing on the market, the success factors increasing competitiveness, the management and marketing strategies etc. and the promotion of the adaptability, with effects on the performance, stability of SMEs and the employment level. The second target group is made up of 1440 women *wishing to start up their own business, in the counties situated along the Western Romanian border (Maramureş, Satu-Mare, Bihor, Arad, Timiș, Caraș-Severin)*. It concerns, at the level of each county, a number of 240 women, trained where they live, as it follows: 24 at the territorial centre situated in the county capital city and 72 at the level of local centres (18 for each of the 4 local centres in each county), 144 at the level of rural centres (12 for each

³² For more information, see www.antres.ro

of the 12 rural centres in each county), respectively a total of 1440 women from all the 6 counties. For this target group the project had in view the formation of entrepreneurial culture, the increase of the ability to transform business ideas into actual actions, by providing the necessary information regarding the business environment and the local existing opportunities, the drawing up of a business plan, the organization and carry out of a successful business etc. and by services supporting the initiation of a business, having as effect the generation of an increased number of businesses, both in the urban and in the rural areas. The third target group is made up of 72 women, last year students in Economics who have been trained to become coordinators in the entrepreneurial field and who currently have a job as rural coordinators in the project. It concerns, at the level of each county, a number of 12 women, selected from in the partner university centres, respectively a total of 72 coordinators at the level of the 6 six counties. For this target group the project had in view the acquisition of the coordinator skills in the field of business start up, the increase of these people's capacity to become promoters of entrepreneurship, as well as the increase of the awareness and promotion of the positive attitude to entrepreneurial culture and to offer services supporting the start up of a business.

Research study and results

To reach the three objectives mentioned previously, the activities carried out in the six counties in the implementation area on three levels: territorial, local, and rural, were channelled on the following directions:

1. The organization of courses in the Entrepreneurial school for women, *Start up of Business* – courses attended by a total number of 1512 women; the impact of these training activities in the entrepreneurial field on women wishing to start up their own business can be seen in the openness regarding the training

activities, the avowal of the need for entrepreneurial education and counselling “*The courses of Entrepreneurial School have been for me the first encounter with economic theory... I have acquired a theoretical basis which, collocated with the already existing practice, form a solid basis for the business I want to start up.*” (Meluț Corina, Oradea, Bihor); “*... this course represented an important opportunity being provided with all the latest necessary information in order to start up a business. The form of presenting the information was clear, concise, and mostly accessible... the project team has had the highest contribution ... which provided the necessary counselling, during the entire learning process ... the knowledge acquired here will represent an important support in my future business.* ((Roiban Roxana, Timișoara, Timiș); “*... to accumulate new knowledge, to deepen new concepts, to better assess the qualities a female entrepreneur needs and, with the help of the business plan, to evaluate the business we wish to start up ... it has greatly facilitated the communication and interconnection among us...*” (Vărguța Marta, Arad, Arad); the opportunity of training activities for personal development “*It has been an opportunity which helped us to make n important step for my professional development. I have discovered managerial qualities that I did not know I had* (Tanko Erika, Satu Mare, Maramureș).

2. The organization of courses at the Entrepreneurial school for women, *Business Development* – courses attended by a total number of 288 women managers of the six counties. The impact of the training activities on the women managers is also significant: personal development: “*.... it helped me rediscover myself and develop professionally. These courses have taught me how to present*

myself professionally, my knowledge and experience acquired through practice” (Dăncescu Livia, Oradea, Bihor); the opportunity to meet successful women managers and to share the experience and difficulties of running a business “...the experts invited shared aspects from their own successful experience, which has been beneficial for me.” (Anton Maricica, Timișoara, Timiș); the desire to improve, motivation and reciprocal encouragement “...I have had the opportunity to learn new things, which are of real help to me both in running the business that I currently have and in assessing the business I want to set up. The use of action learning method allowed us to discuss with the other business women about the achievements and hardships we had encountered when running our businesses, to share our common experiences to the women wishing to start up a business ...” (Tașcă Carmen, Arad, Arad); “...the theoretical part and the practical studies, too ... have helped me involve and motivate the partners through a positive control of the business, each trying to understand that that the performance of a firm is not only revenues but other factors such as financial control factors, employees and generally the performance of the entire activity”. (Azap Mihaela, Reșița, Caraș Severin); “... women were poorly represented in the business environment, stimulating and encouraging through this course the women’s initiative regarding the development and initiation of their own businesses in order to acquire financial independence and to bravely enter the business world ...” (Laza Doina, Satu Mare, Satu Mare).

The integration of the *Action Learning* [1] method in the AntrES Entrepreneurial School, for both categories of courses – *Business Start up* and *Business Development*, had in view the achievement of the objectives proposed beyond the simple supply of a set of

knowledge for the initiation, development or support of the business, by determining the change based on learning, in the real meaning of the word. The use of the action learning method “with and from the others”, by forming mixed sets (groups) – made up of women of all the three target groups: women managers of their own business wishing to develop it, women wishing to start up their own business and last year students in Economics, who have been trained and have become coordinators in the field of entrepreneurship; therefore, women with and without any entrepreneurial experience, in different stages of knowledge and understanding of entrepreneurship. Within these sets, women have been encouraged to discuss freely, based on the subjects suggested by the course book and applications, and also from the perspective of their own experience, being stimulated to share their own problems and to mutually give advice to each other, to ask and answer, being an inspiration for the others, mutually motivating, learning from each other. In completing and stimulating the use of this method, an external expert, preferably a well-known woman entrepreneur or a woman with well-known professional capabilities was invited for the subject tackled, at the level of that particular city or village, willing to share with the course participants her success story or her own experience in the field.

3. The organization of the contest “*My Business Plan*”, where all the 1800 trained women participated. The contest “*My Business Plan!*” was organized on three levels, in order to evaluate, select, emphasize, promote, and award the best Business plans made by the course attendants trained in the project. The contest was open to all the participants to the training activities from the target groups of the project, that is a total number of 1800 women. It took place in 2010 in three phases, thus: 1st Phase – Levels: territorial – selection / inter-regional – prize award; 2nd Phase –

Levels: local – selection / territorial – prize award; 3rd Phase – Levels: rural – selection / territorial – prize award. Each of the phases of the contest “ My Business Plan!” had 2 stages:

- *Highlighting the business plans* – a stage where all the business plans entered the competition, business plans made by the women selected in the target group in the Entrepreneurial school for women, a stage in which, after the Evaluation Commissions evaluated the business plans, 50% of the business plans from the urban areas were highlighted and 30% from the rural areas. The highlighting of the business plans was made by giving diplomas. The business plans have been promoted on the site of the project www.antres.ro in the section *AntrES Winners – The Presentation Catalogue of the Winners, 1st, 2nd and 3rd Phase*³³, and through mass-media during the actions meant to ensure the visibility of the project, information and advertising regarding the project. As a result of this stage, a total number of 724 women from the three target groups of the project were highlighted and promoted, 387 from the urban area and 337 from the rural area, as well as the business plans made by them at the Entrepreneurial school for women.
- *Awarding the business plans*, a stage where only the business plans recommended in the previous stage participated. After the contest at this level, out of the 724 business plans

highlighted and promoted, a total number of 408 business plans were recommended to be awarded. These plans entered the 2nd phase of evaluation, after which **111 women wishing to start up their own business were awarded**, with minimum amounts necessary to initiate the business (amounts ranging between 1000 and 2000 lei).

The impact of organizing this contest and the activity to promote the female entrepreneurship have determined then increase of the motivation among women wishing to start up a business, which has determined the setting up of total number of 180 businesses in the six counties where the project was implemented.

Taking into account the demonstrated impact on the female entrepreneurship of entrepreneurial education, of the models, of the learning from the other’s experience, success or mistakes, by using the *Action Learning* method, mainly characterised by *Learning with and from the others*, the AntrES Entrepreneurial School had in view – and we believe it succeeded – to help the women managers to better understand their business, to develop it and to become real *entrepreneurs*, the women wishing to start up their own business to give them the necessary courage and force to attract and mobilize resources in order to become entrepreneurs, and the young coordinators in the field of entrepreneurship to transform them into promoters of entrepreneurship from conviction and not from necessity.

This paper represents an attempt to contribute to the increase of awareness of the entrepreneurial potential in the Western Romania and not only, the encouragement of female entrepreneurship, an instrument to disseminate knowledge, information and practical experience resulted from this project.

Acknowledgments:

³³ See www.antres.ro, *Catalogue of AntrES Winners 1st phase* – territorial level selection / inter-regional level prize award; *Catalogue of AntrES Winners 2nd phase* – local level – selection / territorial level – prize award, *Catalogue of AntrES Winners 3rd phase* - rural level – selection / local level – prize award.

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Notes:

1. According to the *Action Learning* method (“*Learning with and through action*”), the difference between *to know* and *to understand* is the following: *to know* means to be capable of doing it; *to understand* means to be capable of changing the reality that you understood. *Learning means Progress*, which in its turn represents our capacity to produce *the Change into better*. The use of the *Action Learning* method starts from the premise, widely accepted in the literature, that entrepreneurship is learnt to a higher extent through informal or non-formal means than through the formal education system.

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TOURISM'S CHANGING FACE: NEW AGE TOURISM VERSUS OLD TOURISM

Stănciulescu Gabriela Cecilia

The Bucharest Academy of Economic Studies, Romania

Molnar Elisabeta

The Bucharest Academy of Economic Studies, Romania

Bunghez Magdalena

The Bucharest Academy of Economic Studies, Romania

Abstract: *Times are changing and so are the demands and expectations of the 'new' traveller, the search for different experiences, different adventures, different lifestyles has paved the way for this concept called the 'new tourism' Attention is being turned to exploring new frontiers or daring to go where traditional thought did not allow.*

"New" tourists however, are increasingly being seen to be environmentally sensitive, displaying respect for the culture of host nations and looking to experience and learn rather than merely stand back and gaze. "New" tourists are participators not spectators. Things that would never appear on the list of the "mass" tourist such as adventure, getting of the beaten track and mingling with the locals are now the foundations of the new tourist experiences.

Responding to the shift in market dynamics towards a "New" style of tourist, a number of initiatives have or are likely to fuel the growth of experiential tourism, these include: network tourism initiatives; the development of interpretive highways; the explosion of interpretive centers; the latest trend towards regional base camps. A new era has arrived, and a new kind of tourism is emerging, sustainable, environmentally and socially responsible, and characterized by flexibility and choice. A new type of tourist is driving it: more educated, experienced, independent, conservation-minded, respectful of cultures, and insistent on value for money. Typically these tourists are turning away from travel and prefer to have a high level of involvement in the organisation of their trip.

Key words: *old tourism, new tourism, market, changes, strategies*

Introduction

Until 19th century, travel for recreation was only undertaken by the elite. With the advent of rail, mass travel was available for the first time and destinations such as Brighton, UK and Coney Island, NY developed. Status was then defined by the mode of travel. In 20th century status was revealed by the nature of the destinations. Travel and tourism has been going on since time immemorial, and for the 'twentieth century tourist, the world has become one large department store of countrysides and cities'. By 21st century, travel became a new economy - *tourism* - available to all with enough money. The focus in the tourism industry has shifted from air travel, overnights, meals and so on to total experiences or fantasy worlds associated

with specific. This new tourism phenomenon is not only influenced by economic factors but also by new cultures and a new generation of tourists. In tourism, the different destinations compete worldwide through globalisation. The paradigm shift from mass tourism (also known as *Fordian Tourism*), which was the norm for more than three decades, no longer suffices to achieve competitiveness in tourism enterprises and regions. A new paradigm, or new tourism, is gathering momentum owing to its ability to face prevailing circumstances.

Modern information and communication technology development in symbiosis with the transformation of tourism demand gave rise to a *new tourism*. This paradigm shift is not easy to define but is indicative of a new

type of tourist who wants a new or different product. The new tourists are more experienced, more educated, more "green", more flexible, more independent, more quality-conscious and "harder to please" than ever before. Furthermore, they are well read and know what they want and where they want to go. The different approach of the new tourist's creates a demand for new products. The small, medium and micro entrepreneurs within the tourism industry are dependent on major tourism developments. It is essential role of these small entrepreneurs be increased to deal with the changing demands of the new tourists. In Canada, 20% of the population is truly entrepreneurial while in South Africa the role of entrepreneurs is still extremely small. Only about 4% of the South African population is truly entrepreneurial.

What is New Tourism?

New Tourism is characterised mainly by *supersegmentation of demand*, the need for flexibility of supply and distribution, and achieving profitability through diagonal integration and subsequent system economies and integrated values, instead of economies of scale. This paradigm permits the tourism industry to offer products adapted to the increasingly complex and diverse needs of demand, while being competitive with the old standardized products. These markets of experience have become global, affecting the demand as well as the supply side of the tourism industry. The tourism industry has undergone profound changes, which have been categorized by Poon (1993) in the following groups: (a) new consumers, (b) new technologies, (c) new forms of production, (d) new management styles, and (e) new prevailing circumstances. As result of the super segmentation of demand there is a very strong need for *in-depth knowledge* of the market in order to identify the *clusters of consumer traits and needs*. This knowledge will enable the tourism enterprises to develop those products that will give a greater

competitive edge, and to place them on the market using efficient methods of communication and distribution. *Flexibility* is also a very relevant factor since it can assist the enterprise in adapting to the new demand requirements. This factor is relevant in several areas: flexibility in the organisation and in the production and distribution of tourism products; flexibility in reservation, purchasing and payment systems; and flexibility in ways in which the tourism product is consumed. New technologies are fundamental in this respect and, in particular, in the expansion and development of new systems of tourism information. Diagonal integration is the final basic element. Compared with vertical and horizontal integration, which characterise the mass-standardised production paradigm, this is a process by which the tourism enterprise can develop and compete not only in one activity, but also within a wider framework, seeking profitability on the basis of system economies, obtaining synergies between different products and offering services well integrated in the value systems of consumers. Key shifts in global tourism market trends are as follows:

In the long term, the average standard of living in western developed countries will increase, as will the amount of discretionary money available for travel;

Rising affluence will bring with it increases in the amount of free time available. Longer weekends and increased paid holidays have helped to stimulate expansion in attraction visitation;

There is a shift in emphasis from passive fun to active learning;

Activity or special interest holidays are likely to gain at the expense of conventional sightseeing, visiting and other passive experiences;

There is growing concern about the impact of modern industry, including tourism, on the physical and social environment;

There is growing awareness of risks to personal health and safety;

Leisure time will be used more actively, for mental development as well as physical exercise;

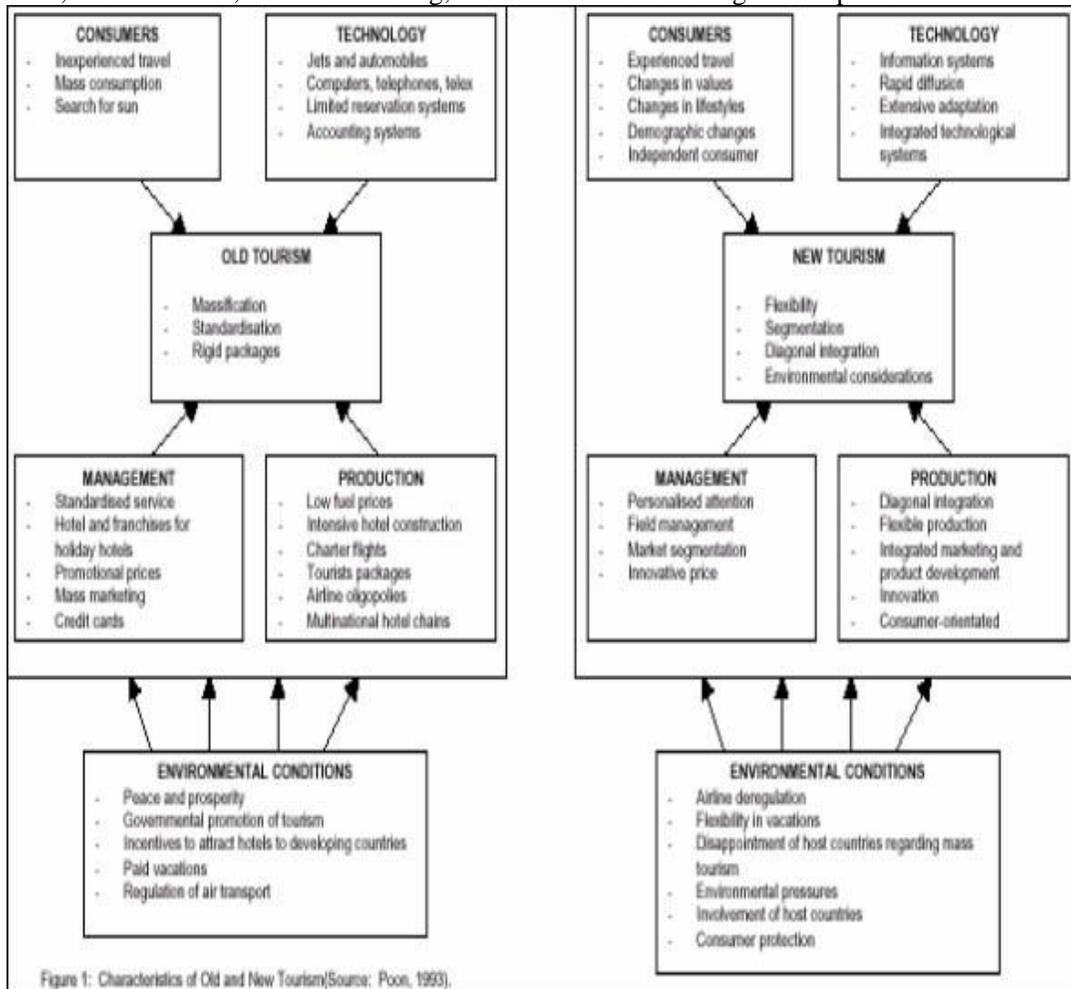
People aged 45 to 64 years of age will be growing significantly in number to the year 2010. In the United States alone, this age group is forecasted to grow by 31% by the year 2000;

The potential visitor of the future will be: older, more affluent; more demanding; more

thoughtful and discriminating; and more active physically and mentally;

Timeframes for decision-making windows will be smaller. Hence, one-stop-shopping for all-inclusive packages will continue to be appealing; and

Consumers will increasingly seek low impact tourism facilities, consistent with environmental values and the desire not to contribute to negative impacts.



The New Tourist

The travelling consumer of today (let alone in the future) is very different from any other time in history. The most successful businesses in the travel industry are those that respond to the challenge through the use of technology, innovative marketing programs, better training of staff and by developing a closeness and understanding of its customers/guests. The differences in travel patterns in the next century will be more related to what consumers are seeking in a travel experience than in how they travel.

Today's traveller, the well-heeled or footloose back-packer, is usually informed, educated, and more often than not, fully aware of what he or she wants from their travels. For them the optimisation of time and money is the key and they prepare for their trip by researching their destination through the Web and the experiences of friends and fellow travellers. Mass media has responded to this shift and further fuelled the search for experiences through the promotion of a vast range of lifestyle/adventure programs which have evolved more recently into experiential

voyeuristic docu-dramas referred to as reality programmes. Attention is being turned to exploring new frontiers or daring to go where traditional thought did not allow.

In *Tourism, Technology and Competitive Strategies*, author Auliana Poon speaks about the changes in consumer behaviour and values which are the critical driving forces for the new tourism. The new tourist is experienced, more flexible, independent, quality conscious and harder to please.

"New" tourists however, are increasingly being seen to be environmentally sensitive, displaying respect for the culture of host nations and looking to experience and learn rather than merely stand back and gaze. "New" tourists are participators not spectators. Things that would never appear on the list of the "mass" tourist such as adventure, getting off the beaten track and mingling with the locals are now the foundations of the new tourist experiences. Typically these tourists are turning away from travel and prefer to have a high level of involvement in the organisation of their trip.

Comparison of Old and New Tourists

	New Tourists	
Search for the sun	=>	Experience something different
Follow the masses	=>	Want to be in charge
Here today, gone tomorrow	=>	See and enjoy but not destroy
Just to show that you had been	=>	Just for the fun of it
Having	=>	Being
Superiority	=>	Understanding
Like attractions	=>	Like sports
Precautions	=>	Adventurous
Eat in hotel	=>	Try local fare
Homogeneous	=>	Hybrid

Source: *Tourism, Technology and Competitive Strategies*, Auliana Poon

Travel is no longer a novelty to the new tourist. Studies support what industry executives have been noticing for the last few years. People expect more out of their vacations than they used to and they are more adventuresome. Surveys done by the Canadian Tourism Research Institute indicate a high degree of interest in getaway vacations, ecotourism, cultural tourism and combining a business trip with a pleasure trip. Over the next ten years, tourism products and attractions will have to cater to visitors who are more demanding and discriminating, as well as more active and more purposeful in their choice of destination. There will be a shift in emphasis from passive fun to active learning, and the quality and genuineness of visitor experiences will be crucial to future success in a competitive market. An Acronym that is relevant to describe the 'new' tourist is REAL, which stands for: Rewarding Enriching Adventuresome Learning Experience.

A key underpinning concept for REAL tourism is authenticity of experience, which is often related to the environment and culture and seen to be unaffected by "mass" tourism. The New Tourists prefer to be regarded as travellers and not tourists. Some specific points which need to be kept in mind while dealing with the New Tourist are:

This type of traveller requires a completely different marketing approach.

They avoid conventional glossy marketing mechanisms and prefer to use reliable sources such as *word of mouth referrals*, their own independent research and trusted publications;

They desire *experiences* as opposed to products and services;

They can be called *experiential travellers*, they extend across all age groups and traditional market segments;

New Tourism for the New Tourist

To enable new tourism attractions to stand the test of time and satisfy the demanding requirements of the evolving 'new' tourist, the following criteria should be applied to existing and proposed attractions:

- That the attraction offers a distinct, unique experience that cannot easily be replicated by competitors;
- That the attraction is value added through 'best practice' interpretation, which preferably utilises a 'human element' such as interpretive guides, seasoned veterans and/or local characters;
- That, where possible, the experience is externalised within the natural/actual setting rather than internalised within a false/reproduced setting;
- That the attraction offers an exciting, authentic, interactive and educational experience;
- That 'comfort' should not compromise the authenticity of the experience;
- That the attraction adheres to ecologically sustainable development principles;
- That the attraction avoids the over reliance on technological interpretive devices that will become quickly outdated; and
- That the attraction offers a choice in the form of interpretation offered.

Responding to the shift in market dynamics towards a "New" style of tourist, a number of initiatives need to be taken so as to fuel the growth of experiential tourism these include:

- Network tourism initiatives;
- The development of interpretive highways;
- The explosion of interpretive centers
- The latest trend towards regional base camps.

Conclusion

A new tourism is emerging, sustainable, environmentally and socially responsible, and characterised by flexibility and choice. A new type of tourist is driving it: more educated, experienced, independent, conservation-minded, respectful of cultures, and insistent on value for money.

Starting in the eighties and mid-eighties (depending on the tourism receiving region in question) a number of dramatic environmental changes occurred which moved the "tourism industry" much closer to the characteristics of the new economy. Used to more convenience, faster service and more options from his/her every-day-life the new tourist also insisted on more options, more entertainment and fun, more diversified sports facilities and cultural variety in his/her vacation. This new consumer (tourist) thereby has exercised pressure upon the tourism industry and tourism enterprises to develop new products, services and experiences. Information technology is opening up an astonishing array of travel and vacation options for this new tourist. To remain competitive, tourism destinations and industry players alike must adapt. For many, the challenge is to "reinvent" tourism. Market intelligence, innovation, and closeness to

customers have become the new imperatives. Thus, on the horizon of the postmodern landscape, a New Age of tourism is dawning: New Age tourism for New Age people.

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YOUTH LABOUR MARKET. MOBILITY, CAREER DEVELOPMENT, INCOMES. CHALLENGES AND OPPORTUNITIES

Vasile Valentina

*Institute of National Economy-
Romanian Academy of Sciences*

Vasile Liviu

*Institute of National Economy-
Romanian Academy of Sciences*

This paper presents the main characteristics of the youth labour market, with a special view on mobility, career development and incomes. The paper is substantiated by and continues the researches of the authors on the topic of labour force mobility and on the one of adaptability, respectively on youths' behaviour on labour market (with particular consideration of young graduates) highlighting the factors that adjust choices regarding taking up a job, career advancement, labour motivation, professional and personal satisfaction opportunities which are provided by the labour market at local level, in country and abroad. Quantitative and qualitative indicators are presented about Romanian youths' labour market within the European context during the transition period. The impact of the crisis on youths' labour market is analysed, highlighting the challenges and opportunities, the particularities of the newly created jobs and especially the knowledge, skills and competencies requirements (KSC). The authors propose both the improvement of the systems of indicators for defining the potential and presence of youth on the labour market, the economic and social impact of external mobility of young graduates and an integrated scheme of policy measures for promoting adaptability and performance integration on Romanian labour market of youth. Particular attention is paid to presenting policy instruments for halting/diminishing the brain drain and brain shopping phenomena by promoting an attractive (professionally and monetary) supply for employment in Romania's local economy. The authors succeed in highlighting the functional links between the education market (labour force supply) and labour market (employment demand of the business environment) underpinning the requirement of integrated management of labour potential in the years preceding studies' finalization and up to the post-insertion years by multi-criteria analysis models and graduate career tracking programmes. Correlative measures are suggested for policies, procedures and monitoring instruments of youths' adaptability on labour market, as alternative to external migration/mobility for labour.

Keywords: labour market, education market, young graduate adaptability, labour mobility, career development

JEL classification: J40, I20, J61, I25

I. Introduction

Youth employment is much more volatile than the one of mature labour force. *Youth labour market is characterised by opportunities' deficit for decent employment, diminishing jobs, employment precariousness (increases in the number of part-time jobs, temporary employment) and wages' reduction.* Young people are faced also with increased difficulties on entering the labour

market, considering that also during the economic expansion period there were already issues related to the creation of new jobs for them. The lack of employment perspectives in a decent job on entering the labour market affects/compromises their path on labour market and career development. Additionally, *unemployment among young individuals presents specific vulnerabilities – higher sensitivity to the variations of*

economic activity, difficulties in creating new jobs for youth, longer duration of the unemployment period, and easier entry on the informal labour market, which turns into a true refuge, particularly for graduates. Experts' estimations appreciate that an increase in total unemployment rate by 1 per cent is accompanied by an employment diminishment among youth of about 1.1 – 1.8 per cents, and Romania is one of the EU Member States with the highest unemployment rate of youth and its increase is expected (about 3 times higher than the general unemployment rate). The crisis “generates” precarious jobs for youth, which are weakly remunerated very often under their skills' level, triggering loss/depreciation of competencies, or long-term unemployment and discouragement, hence increased poverty incidence.

Considerable numerical and structural gaps are present on labour market between supply (outcome of education for vocational training) and demand (job requirements on the national labour market), which are amplified in some fields by the free movement of labour force (attractiveness of some better paid jobs, not necessarily in the same training field), so that a significant deficit emerges for skilled staff in fields such as constructions, industry, services, including here health care ones, while on the European labour market our citizens deliver preponderantly low/un-skilled labour.

On the education market, the curriculum adjustment and the range of skills on professions and fields of sciences has low flexibility, remaining behind as considered from KSCs demanded on labour market, and the link between school and business environment is erratic, punctual, or inexistent in most field (lack of cooperation for practice, internship, etc. and the system of scholarships provided by the business environment among graduates is strongly unbalanced tending to being inexistent). The difference between the demand on labour market and the supply of labour from among the graduates is strongly

imbalanced, in most cases a period of training is necessary for labour market insertion of the graduates (either on the job or by courses provided by authorised institutions for adult education on the LLL market, and by courses of the National Council for Adult Training - NCAT).

In the current paper we intend to highlight the fault lines between the educational system and the labour market and to present an integrated system of instruments and support mechanisms for dynamic balancing of the labour demand and labour supply represented by the insertion of young graduates.

II. Literature review

Youth adaptability on labour market, their professional insertion and the KSCs deficit are issues widely debated by experts, particularly as outcome of the propagated effects on long term which they generate. Young people enter the labour market unprepared, without practical skills, their theoretical knowledge is either outdated or incomplete, and their basic competencies – generic and specific – are weakly developed (Vasile, V., 2009). The transition from school to active life and labour integration of youth represents an essential issue with a strong economic and social impact as it is also an important measurement of the external efficiency of the educational system (Vasile, L., 2011). The concerns in order to promote (performance) employment of youth, and the efforts of integrating young people on the local labour market were intensified during the period of crisis, and at EU level were realised a series of studies and researches of the various aspects regarding this issue (EU, 2011). Additionally *EU 2020*, integrates in the development targets both young generation's participation to education to a share of 40%, and a diminishment of early school leaving under 10%, which are performances difficult to reach by Romania (from 16 % in 2008 the intention is to increase to almost 27% in the case of the share of graduates of tertiary education aged

from 30-34 years and also from 15,9% in the same year to reduce to 11,3% the rate of early school leaving). At the same time, EC, by “Youth on the move” proposes in 2010 a number of 4 priorities for lowering youth unemployment: support for professional insertion and career development; support for youth in risk situations; promoting a support social network and sustaining entrepreneurship and self-employment. Increased concerns are shown also at national level by supporting the absorption of structural funds for priority objectives that support youth (adaptability to the labour market, post-doctoral studies, etc.), as well as by developing topical surveys (NIS, 2000, 2009). We still can remind the topical studies realised by various other institutions, based on projects financed with domestic funds, or international ones, yet these provide only for a partial, fragmented image related to the issue of youths on labour market (Nicolescu, L 2002, Săpătoru D Caplanova A & Slantcheva S, 2002)

As result, there is no relevant information source that would aid the education system to permanently adjust/adapt the educational profile to the requirements of the business environment (of the *graduate career tracking program at national level*), and the market allows just for punctual regulation on short-term by CVT courses especially, which does not solve the issue of the anticipative character of the educational system against the labour demand expressed by the real economy. The outcomes of the survey repeated in 2009, associated with the reform measures on both markets (education and labour) allow for formulating some conclusions/partial outcomes and may represent milestones for defining the framework for improving the communication relationships/channels between the two systems/markets. Moreover, **there are neither systematic studies nor even a national databank for monitoring the socio-professional insertion of graduates on labour market in the first years by**

highlighting the dysfunctions in forecasting educational content, and an adequate system of indicators that would allow for evaluating the impact of the university system on the Romanian economy and society is non-existent, as well. Only fragmented studies are made at the level of individual universities, without an attempt of aggregating the outcomes. The requirement of such approaches and the first national initiatives were rendered concrete in developing a methodology and working instruments regarding monitoring studies of insertion on labour market for higher education graduates from Romania (MECT, 2008), which were applied for the first time by means of a pilot project initiated within SOPHRD (Damian, R.M., 2011). The questionnaire developed on this topic is applied to a restricted target-group represented by graduates of state- and private higher education institutions after one year, and then after five years since graduation, but only for the universities involved in the implementation of the study.

III. Youth labour market. Main characteristics and development

In the context of the economic transition process, the labour market from Romania was faced with important changes, shown in the diminishment of the active and employed population, in the increased unemployment among young individuals and growth of long-term unemployment, in the limited capacity of the economy to create new jobs and to ensure stimulative work remuneration in accordance with performance and importance of supplied work, by the lack of attractiveness of the jobs for young graduates, particularly for those finishing tertiary education. As result, labour mobility increased especially external mobility of workers, and the stock of migrant population is estimated currently to total almost 4 million persons (in the registered and unregistered economy). Labour market reform and the changes in the human capital management model from

Romania have known a sinuous development, much delayed as compared with the demands of the economic and social environment. This issue was left on a secondary plane, as it was considered that the regulations on the other markets will generate the required changes to ensure labour market functionality. **If we consider the requirements of an efficient labour market**, as support for sustaining competitiveness, we may appreciate that the labour market after two decades of reform/adjustment and a period of economic growth of about 8 years: a) *does not ensure an efficient allocation of human capital* within the economy, nor its performance use; b) *the remuneration system is rigid in relation to performance and work involvement*, and does not stimulate to a sufficient extent the additional effort, in particular for the public sector; c) *mobility on fields of activity is relatively low*, even for common professions of the national economy due on one hand to the rigid recruitment and selection systems of the staff (the criterion of experience is defining in most cases), and on the other hand due to the high differences in the remuneration on branches and fields of activity (especially with respect to the bonuses and advantages system (bonus for the importance of the branch, stability bonus, etc.); d) *opportunities' equalities in career advancement and remuneration* albeit stipulated in regulation documents and development strategies of human resources, the practice shows frequently derails thereof. Hence, we cannot consider efficiency and flexibility on labour market as support factor of competitiveness (the seventh pillar "labour market efficiency", Global Competitiveness Report 2009-2010), and as positive input to increasing economic growth and sustainable human development, to retaining young graduates on the national labour market and decreasing migration propensity.

During the entire transition period is recorded a diminishment in the size of labour market associated with higher flexibility but on the background of increasingly stronger **de-**

correlation under the quantitative and qualitative aspect between labour demand and supply, especially on the labour market segment specific for young graduates. Low concerns exist for the efficient allocation of labour force at local level, by stimulating through active measures internal mobility for labour. The concentration of investments in high-density population urban areas and the lack of instruments for supporting internal mobility for labour (living and/or transport conditions) triggered increasingly stronger decoupling under quantitative and qualitative aspect between demand and supply for labour at regional/local level. **Temporary migration for labour is preferred by working-age household members, particularly the young individuals aged up to 35 years, instead of territorial mobility of the household or commuting.** Very often **deficits are encountered on some markets and labour force surplus on trades/professions on others, the differences being covered rather by external migration flows (emigration of Romanians to Western Europe, Israel or Canada, and immigration from the East on the local labour markets, especially the ones in Moldova and in the central region of the country).** Unfortunately, to a large extent, such balances are made due to the informal market, the benefits being partial both for employees (wages but without social insurance), and employers (lower costs but without instruments for long-term incentives for performance and labour involvement), and also for the society (reduced contributions to social funds and unpaid taxes).

The crisis period generates significant changes on labour market, in the opinion of social partners, disruptions and atypical developments, non-performance and actual restrictions in the way of economic turnaround. The previous economic growth is proven as unsustainable and the Romanian economy drops by more than 7% in 2009 and yet another about 1.5% in 2010. The

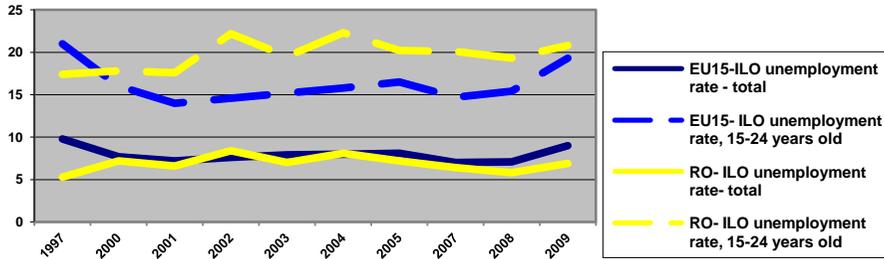
constriction of economic activity triggers considerable unemployment in the private sector but also personnel reductions in the public sector, but on administrative criteria of diminishing personnel expenditures (budgetary corrections are operated uniformly on ministries). The number of governmental agencies are reduced by half, yet ministerial structures increase, reductions are made in education, health care and research strictly on economic reasoning, without defining the medium- and long-term needs both for quality and efficient educational and health services, as well as for technological progress within the business environment, as solution for exiting the crisis and economic turnaround. The European principles of supporting continuing learning and stimulating the generation of RDI outcomes applicable within economy are acknowledged as necessary, yet unsupported in practice, employment is practically blocked by the lack of demand from the business environment and administrative layoffs within the public sector. Unemployment increases, the active measures on labour market are even more downsized (the level from the period of economic growth varying around 2% in total unemployment fund, for instance) and employees participation to CVT decreases dramatically (Romania was placed on the last position in the EU with a

participation to CVT courses of about 1,3% in the last 2 years.

Unemployment among youngsters is higher than the average, about 2-3 times, and higher for men. Young people are predominant among unemployed who never worked and they represent a third of the long-term unemployed.

The youth labour market is different as challenges and restrictions, being more vulnerable to migration “attractiveness”. Young individuals represent the most mobile segment of migrant population, especially for external migration. Aspirations about incomes and professional career and the relative independence from family (single, or without children) make them be more open towards jobs at longer distances, if they satisfy expectations. On the other hand, the situation of youth on labour market is difficult as they are regarded a vulnerable group: they have more difficulties in finding a job due to lack of working experience (in Romania only a small share of the young are employed during their university studies and only few, by exception, during the period of upper-secondary studies). In the last years, e-jobs mobility and increasing part-time employment already during the period of study have attenuated the pressure on insertion unemployment rate.

ILO unemployment rate in Romania and EU, total and for the age group 15-24 years



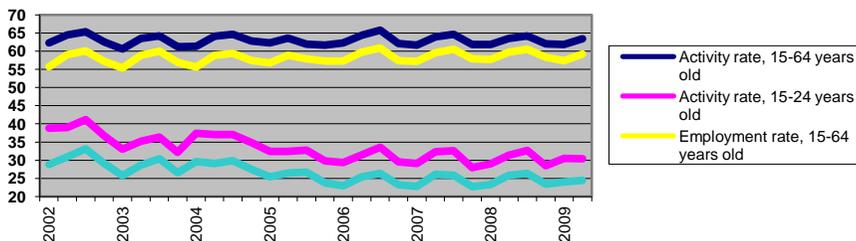
Sursa: Eurostat (2009), <http://epp.eurostat.ec.europa.eu/portal>.

The youths employment model is defined by the following characteristics: part-time jobs, contracts on determined periods of time, high mobility from one job to another in the first year after finalising studies, diminished wages towards the legal limit for the graduated level of studies, dual employment, or only within the informal economy, low perspectives of access to a career in the first years, practical competencies and skills deficits triggering inclusively employment in inferior jobs to the training received in school. All these aspects define a non-performance and weakly stimulating model for stability, career advancement and personal development. At an employment rate of the working-age population (15 to 64 years) of about 60% in Q3 2009, were employed 26% of the young individuals (15 to 24 years of age). The highest employment level is among graduates of higher education (84,6%) for the same period and decreases to about 45% for

those with the lowest training levels (NIS, 2009). As fields, youngsters aged 15-24 years are employed preponderantly in constructions, trade, hotels and restaurants, and those from the age group 25-34 years of age in real estate transactions and trade. Men are best represented within all socio-professional categories, partially justified also by the fertile life span of women and hence the lower share of participation to labour market.

The activity rate and the employment rate for youths aged 15-24 years is lower than the national average, due to: reduced population cohorts (as result of demographic decline), to extended education period, to poor employment attractiveness provided by the market and to the national employment model which does not promote youth employment during the period of studies, save by exception.

Youths activity and employment rate, 2002-2009



Source: Labour force in Romania – employment and unemployment– Q 2, 2009, NIS

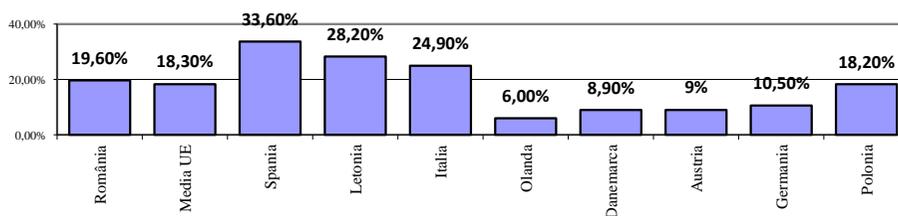
Consequently, the two rates are placed about 20 pp under the general average. At the same

time, against the Lisbon objectives, the working-age population employment rate in 2008 places Romania at a distance of 11 pp (70%), and for the women at a distance of 7,5 pp (60% objective).

Secondary education graduates have an employment rate varying on averages around the national values, the employment rate in the rural area being in reversed proportion to the education level in the case of pre-university levels of study, and the opportunities provided by the rural area being in (paid or unpaid) activities developed in agriculture. Estimates (CEDEFOP, 2008) show that up to the year 2015, approximately 30% of the jobs shall require higher education and almost 50% at least upper-secondary education with a significant decrease of the jobs requiring a low skill level. Professional insertion of a graduate is strongly influenced by the attended school, the field of study, the economic development level of the region, the firms/companies in whom he/she effected internship or worked during studies, the recruitment firms where he/she sustained interviews, on the attended conferences and trainings, etc. Occupational guidance already during high-school of youngsters towards the

professional profile and choice of university training in relationship to the intended trade/profession for career development, correlated with gained aptitudes and competencies, but also with the demand on labour market trigger a higher employment rate of graduates and less time searching for a job “adequate/corresponding” to individual aspirations. From this perspective, employment opportunity is in reverse proportionality to the sum of self-imposed restrictions of the graduate. This is also the reason why for young individuals (15-24 de year) the long-term unemployment rate (unemployment of 6 months or over) was, for instance in Q3 2009 of 10,4% , and the incidence of long-term unemployment among youths of 46,9% (at an average unemployment rate of 6,8% per total and of 22,3% among those aged between 15-24 years). Women have an unemployment rate by approximately 30% lower as compared with men. However, they register an enrolment rate in high-school, respectively tertiary education significantly higher than the one of men, a situation which explains the lower employment rate which is specific to them (Vasile V., 2009).

Share of the young unemployed at the half of the year 2009



Source: Eurostat on-line database

If we refer to action methods on the labour market, the youth is more incisive and resort to direct and modern methods in searching for a job, take more risks at an interview and the negotiation of working conditions and incomes. Between finishing school and taking up an activity at the first significant job, 74.1% have searched a job using active methods (direct contacting of employers or of the decision factors responsible with hiring 37.9%). The insertion rate of tertiary education graduates is lower against the average situation per total youth who are hired and particularly in the first year after graduation, due to the fact that an university graduate will search longer and have higher expectations with respect to the workplace – under the aspect of the professional profile of the workplace and of the provided remuneration level (very often much lower than graduates' expectations). Even though the state grants tax facilities on employing youths (for instance, the employer will receive for a 12 months period the minimum wage on economy) due to the complementary conditions (including the obligation to remain on the job for at least 2 years) and of the high mobility of youths in search for the right job corresponding to their professional aspirations, the share of those resorting to these facilities is very low. On medium- and long-term, job security for youths with tertiary education is relatively higher, but also the opportunities for mobility based on employment advantages are more. In general, young graduates are considered on insertion on the labour market as having the disadvantage of lacking experience, yet the advantages are net superior: potentially high productivity, adaptability and acceptance of novelty, theoretic knowledge, so as to be considered "relatively cheap", as lack of experience diminishes the level of the insertion wage towards the minimum legal limits. The hampering lack of experience can be relatively easily dealt away with by training on the job, which depending on trade

and skills level attracts lower or higher continuing training costs. Yet, these costs are absorbed on medium-term by individual outcomes and performance, if there is employment motivation. Job motivation and satisfaction are very important components for graduates and youths in general, and therefore they turn easier into unemployed and search for a relatively longer period of time an adequate workplace. Consequently, the unemployment rate for the age group 25-34 is closer to the average one, which leads to the idea that youths after graduation have a short period of feverishly searching a job, with frequent changes and alternating unemployment and employment periods, until succeeding to find a job or to migrate for employment outside the country.

IV. Ways of diminishing discrepancies between demand and supply on youths' labour market. Milestones for an integrated balance model for insertion employment

Youths on labour market remain a disadvantaged group, and as risk are considered: a) for the society as unemployment on local/national market and their migration as brain drain/brain shopping lead to waste of resources due to the non-valued investment in education done in the country and loss on medium- and long-term average of GDP and diminishment of natural increase; b) for the labour market, in event they fail to get employment according to their training profile and in a professionally and financially attractive job. The profile of the young worker is defined on a hand by education (knowledge and theoretic competencies, especially), occupational flexibility, availability for LLL and, on the other hand, the attitude (to work, job, professional career, status on labour market: employed, self-employed, etc.); geographic mobility. The size and balance on labour market are defined by the medium- and long-term trends: demographic decline by delays

in family grounding and in the decision to have children, mobility for career and incomes – geographic or virtual – employment volatility, entrepreneurship development and self-employment, lower elasticity by unemployment, increase in the stock of incorporated education and permanent updating by LLL, gender convergence on trades, professions, specialisation fields, including at managerial level and presence in the political life, the interest for developing a successful professional career.

An integrated model for ensuring mobile balance on labour market presupposes at least three components: education for labour market as integral part of LLL, defining the business environment demand by means of KSCs and ensuring a social network of stimulating employment on local/national market. For each component a number of indicators for quantitative measurements can be defined and then weighted/adjusted with the qualitative variables resulting from dedicated surveys (graduated track survey and labour market for youth questionnaire). The selected variables were of 3 up to 6 for each component depending on the demanded training level for the job and scarcity of the specialists. In the case of a job for a tertiary education graduate, as minimum quantitative indicators were defined: a) for the education for labour market component were considered the number of graduates on specialties, the aggregated index of generic competencies and the KSCs index specific to the profession and hierarchical level of the job; b) for defining the labour demand within the business environment was considered the specific demand of similar jobs, workplace stability and the substitution index of the professional profile; finally, for c) social indicators of stimulation, at least at the comparative level of wages and additional wage packages can be considered the geographic indicator (defined by the rural/urban environment) and the local development level (GDP/area inhabitant or

the development lag against the national average). Balancing the values of aggregated indicators on each component indicate the compatibility state and attractiveness of employment for youths, while the imbalance situations points out the migration risk – brain drain/brain shopping or the employment option by substitution (another professional profile but for which minimum competencies are proven for taking up the job). The job experience variable non-specific to young graduates and the advantages of the employer from insertion employment are considered in operating selection of equivalent candidates (IEN, 2010). Albeit in the incipient stage of developing and testing on youth market, this algorithm allows on one hand for guiding the educational system to curricula adjustment and focusing learning outcomes on KSCs demanded on labour market, and on the other hand in guiding employers towards recruitment from the local market or from the national/international market, as well as to the association with the development on variants of employment of the e-work type for some trades/professions and, respectively jobs. The current developments and dysfunctions on the youth labour market, particularly during the period of crisis when the volatility elements were more prominent, support the need of developing ex-ante and ex-post management mechanisms of potential (youth) labour force employment by combining counselling and professional guidance with internship periods and graduate tracking management, employer/alumni engagement strategies, industrial relations development and stimulative wage package, LLL, career development model, etc.

V. Brief conclusions

The labour market, respectively the business environment is more exigent in the case of the young labour force which enters labour market after graduation. Youths have more difficulty in finding a job corresponding both professionally and monetary, the reason why both employment fluctuations from employment to unemployment and vice-versa, and longer periods of unemployment are an important barometer of permanent education system's reform in Romania. Moreover, information about vocational training programmes or for on the job adjustment may provide information about dysfunctions and correlations' lack between the education system and demand on labour market, while the following might be considered as the most significant ones:

- Youths entering on labour market after graduation of secondary or tertiary education live preponderantly in the urban area, and men are more numerous; accessibility of higher education is better for those in the urban area, opportunities closer to the beneficiary and, very often, financial restrictions are the most important.
- The shares of their employment and unemployment against the age group to which they belong has not underwent significant changes, just as the passage rate to higher education which improved but not to a significant share and, unfortunately, did not generate a proportional improvement of graduates' education quality, but to the contrary.
- Still the diploma is more important than proven skills and knowledge, in particular for the public sector. The business environment becomes gradually increasingly rigid from this viewpoint and requires evidence on hiring of professional competencies' certification, and in their absence, employment is made on a job requiring inferior training and/or the knowledge deficit is compensated by CVT on the job.
- The activity rate decreases, young individuals on one hand postpone entering the

labour market, and pursue several educational tertiary paths (often in completely different fields) or continue their studies for masters/doctorate or, on the other hand after graduation (or early leaving) are active on the black market, or migrate for employment in low skilled jobs, inferior to gained education.

- The main reasons of early school leaving are still of current concern, respectively the high cost of schooling (especially for those from the rural area) and/or associated with the need of working for incomes (dependency on families with low incomes or other types of difficulties). An important reason of failing to finalise studies is represented also by the inefficiency of the evaluation/certification systems on graduation which consider inflexible evaluation schemes and less adjusted to the practical finality of education – knowledge verification instead of competencies certification, etc.

- The lack of a flexible, coherent and accessible to all system for continuing training, including by certification/continuation/ and/or transition from the formal to the informal and non-formal system.

- Another issue which is difficult to measure but is particularly relevant under the aspect of compatibility between education market and labour market, between the chosen profession and competencies for practicing this profession in performance conditions is represented by the analysis “first significant job” – under the aspect of professional profile and search duration.

- Finally, another important aspect of individual performance during active life is represented by the informal education related to the behaviour on labour market and professional development. The example of parents and extended family members may define to a significant share the labour market behaviour of young graduates and their professional path.

Failure to acknowledge such aspects in a systematic way and their analysis affect the feedback processes within the educational

process, maintaining dysfunctions and gaps between education market and labour market, rendered concrete, finally, by loss of human capital, of investments in education, loss of potential value added as result of non-performance work or giving up work after graduation. The relatively high level of this youths' unemployment rate **emphasises the necessity of a closer link between the educational and vocational system and the labour market.** Finalising and applying methodologies of monitoring young graduates insertion for various educational forms (vocational, upper-secondary, tertiary) is a priority, just as the development of more flexible and efficient systems of organising internship for students. Last but not least, a more careful analysis is expected with respect to the competencies which Romanian employers regard as important for the success of their companies and the adjustment of the educational and vocational supply to them, periodical update of occupational and vocational training standards, and of the educational curriculum in close dependency to the change dynamics on labour market.

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Section Finance, Banking and Accounting
Sub-section: Finances

THE FINANCIAL CRISIS AND ITS IMPLICATIONS ON THE PUBLIC DEFICIT OF THE EU COUNTRIES

Bătrâncea Ioan

Faculty of Economics and Business Administration

Bătrâncea Maria

Faculty of Economics

Bogdan Vodă University, Cluj-Napoca, Romania

Nichita Ramona-Anca

Faculty of Economics and Business Administration

Abstract: In this paper, the authors make an analysis of the second wave of the actual World Financial Crisis. They present the consequences of the first wave of the World Financial Crisis, namely the Banking Crisis, on the EU countries public debts.

Keywords: analysis, crisis, public debts, EU

JEL Classification: G30

1. European Bailout Plan

The first wave of the global financial crisis consisted of a deep crisis within the international banking system caused by mortgage contracts. The devastating effects of this first wave were only delayed - not eliminated - by states interventions through state bailouts given to banks in difficulty. To mitigate the effects of this crisis, the European Bailout Plan was passed in 2008 within the EU Zone, which in summary provided the following:

- Any financial support had to be given on time and it was temporary;
- Taxpayers interests had to be protected;
- Remaining shareholders had to deal with governmental interventions;
- Governments were free to change companies management when necessary;
- Governments were entitled to changing banking wage policies;
- Stipulations relating to EU Bailout Plan had to be followed as stated;
- No secondary effects on other UE members were allowed.

Besides the bailout amount of 1465 billion Euros, the EU Bailout Plan also stipulated that bailed banks could not give dividends to investors until the total amount received by them was returned to the governments. Moreover, governments had the right to be represented on the board of directors of bailed banks by special observers. As a consequence of the above stipulations, European stock markets fell the very next day this plan was approved.

There were also some exceptions. Many French banks like Credit Agricole or BNP Parisbas refused governmental help because of its interfering role in bank management. Other banks accepted the bailout plan, as following: Barclay's (UK): 1.62 billion £; Royal Bank of Scotland (UK): 5 billion £; Fortis (The Netherlands/Belgium): 11.2 billion €; Dexia (France/Belgium): 6.4 billion €; Hypo Real Estate (Germany): 35 billion €. This bailout given to banks by EU states was misunderstood by them, for several reasons, among which the following:

- When banks know that the state will support them during crises, they can afford to take bigger risks.
- Without more regulation, banks are driven to increase their returns by taking bigger risks.
- When banks gain huge amounts of money, they keep the profits; when banks lose, it is the state that pays.

Looking back, one can see that the European public has discovered an interesting fact: the 2008-2009 fiscal stimulus programs, which were aimed at forestalling an even greater crisis, generated more debts than jobs. By analyzing this situation, one conclusion arises: cheap money (through cost and high liquidity levels) has deepened the crisis.

2. It's all in the history

Recent past history showed, on one hand, the financial crisis deepened the problems of several European countries because of the monetary and financial structures of the Euro zone. On the other hand, the crisis resulted in extreme shortage of liquidity for European banks. During 2007-2008, banks of core Euro zone countries (**Germany, France, The Netherlands, Belgium**) continued to lend to peripheral countries (Italy, Spain, Ireland, Greece, Portugal). Gross cross-border claims from core to periphery reached 1.5 trillion Euros in 2008, representing almost three times the capital of core banks.

The European Central Bank (ECB) intervened, lending freely and making it possible for banks to start dealing with their weak position. Also, the ECB reaction was very different in 2009 when states were facing growing borrowing needs due to the crisis. The ECB watched as interest rates rose, financial institutions speculated against state debt, and state bankruptcy raised its head. In such a difficult financial environment, the Euro zone left each state to defend itself in the financial markets.

When looking closer at the above mentioned time line, the following can be stated: The financial crisis has been followed by a wave

of governmental defaults on public debt obligations; The financial crisis has led to, or exacerbated, sharp economic downturns, low government revenues, widening government deficits, and high levels of debt, pushing many governments into default; As recovery from the global financial crisis begins, the global recession endures, at some point to the threat of a second wave of the crisis: **sovereign debt crisis.**

3. Sovereign debt crises

In a financial crisis, government spending increases dramatically in the attempt to stabilize the financial system and stimulate economic activity. Hence, tax revenues fall, fiscal surpluses turn into deficits and existing deficits increase. Because of the difficult financial situation, all sixteen members of the European Monetary Union (EMU) have violated treaty limits on allowable budget deficits (some more than four times). Moreover, the leading economies of the world have all seen their deficits shoot higher, some to record levels.

Among all the obstacles, there is a certainty: when economies are contracting or even grow slowly, bringing these deficits back down to earth, the situation turns into an unenviable challenge. Governments have to survive by turning to the markets. Then those increased deficits turn into growing debt loads. When debt reaches 80 percent of the GDP threshold, the borrowing costs for governments start ticking higher and so does the market scrutiny. Related to this topic and in the attempt to warn financial markets, the IMF stated in 2010 that five of the top seven developed countries in the world would have debt levels exceeding 100 percent of GDP during the next four years.

If deficits and debts rise and economic activity appears unlikely to solve fiscal problems, the creditworthiness of the government falls under intense scrutiny. That's when downgrades appear. This is the situation many countries around the world had to face in 2009 and 2010, when the

sovereign debt crises burst. Greece's sovereign debt rating has been downgraded to *junk* status. Spain has lost its AAA rating. UK could have lost its AAA status if its deficit would not have been addressed. Across the ocean, Japan's outlook has been cut to negative and rating agencies have even warned the U.S.

In such an environment, when investors see more risk, they require more return. Therefore, the borrowing costs for troubled countries rises. Then, it becomes harder to finance spending needs and harder to finance existing debt. That's when defaults show up. Unless governments can **demonstrate** they're willing to take tough steps to reign in debt, crisis can spread quickly.

4. Public deficit, nowadays problem in the EU

Regarding the issue of the EU public deficit, it must be stated that this economic phenomenon is accepted within the union until it exceeds values stated in documents like: Maastricht Treaty (1992); Stability and Growth Pact (1997).

According to the Maastricht Treaty, countries have to meet several convergence criteria, among which the following:

- An inflation rate no more than 1.5% higher than the average of the three lowest inflation rates of EU member states over the previous year;
- Long-term interest rates must not exceed by more than 2% the lowest inflation rates of EU countries over the previous year;
- The Member State is required to join the exchange-rate mechanism (ERM II) for two consecutive years before entering the Euro

zone and it should not have devalued its currency during the period;

- A government budget deficit must not exceed 3% of each country's GDP at the end of the preceding fiscal year;
- A gross debt to GDP ratio must not exceed 60% at the end of the preceding fiscal year.

On the other hand, the Stability and Growth Pact (1997) provided:

- mechanisms for multilateral surveillance and enforcement;
- stated that budgetary positions should normally be "close to balance or in surplus";
- if requirements are broken, EU can apply a fine of 0.5 % of the GDP to its members.

To comply with the provisions of the two treaties, EU members had to impose a strict budget discipline, because the budget positions of some countries pose a risk for the sustainability of the public finances of these countries and of the European Monetary Union (EMU) as a whole. Moreover, the national fiscal policies of EU members were strictly subordinated to the inflation target of the European Central Bank. Also, the national governments were obliged to meet rigid parameters and could not use fiscal policies freely to increase growth and employment.

Nevertheless, since the financial meltdown has begun, 20 EU countries (among which all 16 of the EMU's members) have been guilty of excessive spending. During all this period, European governments were and still are struggling to rein in deficits after the worst downturn since World War II. The table below presents some data concerning the amount of deficits:

Table no. 1 Budgetary Deficit/GDP

COUNTRY	2007	2008	2009
Ireland	0.1	-7.3	-14.3
Greece	-5.1	-7.7	-13.6
United Kingdom	-2.8	-4.9	-11.5
Spain	1.9	-4.1	-11.2
Portugal	-2.6	-2.8	-9.4
Iceland	5.4	-13.5	-9.1
Latvia	-0.3	-4.1	-9
Lithuania	-1	-3.3	-8.9
Romania	-2.5	-5.4	-8.3
France	-2.7	-3.3	-7.5
Netherlands	0.2	0.7	-5.3
Hungary	-5	-3.8	-4
Bulgaria	0.1	1.8	-3.9
Malta	-2.2	-4.5	-3.8

Source: Eurostat data

As it can be seen, twenty member countries are facing EU deadlines to get their budgets back in shape. They are all deemed crucial to economic stability and growth as the EU claws back from recession. A review of the situation in Hungary, Latvia, Lithuania and Malta shows all four countries have taken adequate steps to narrow their deficits. There are requests that Malta and Lithuania are granted another 1 and 2 years to get back in shape.

Most analysts stated that in 2010 unemployment rate in the EU would reach the level of 10.25% and the public deficit would be 7.5% of EU GDP. In 2009 budget shortfalls of two or three times the EU limit would have been unthinkable in most countries. Because many countries have exceeding deficits, the EU Commission proposed deadlines to reduce gaps. Here are some examples:

- Hungary met its 2009 deficit target of 3.9% of GDP. It has until 2011 to bring its deficit below 3%.

- Latvia ended 2009 with a deficit projected at just below 10% of GDP, as recommended by the EU. The target for 2010 was 8.5%.

- 13 countries were given 2-5 years to reinstate fiscal discipline: Italy, Belgium (until 2012); Germany, France, Spain, Austria, the Netherlands, the Czech Republic, Slovakia, Slovenia, Portugal (until 2013); Ireland (until 2014); UK (until 2014-2015).

The significant indicator for any country is Gross Debt to GDP Ratio, which has deteriorated strongly due to recession, stimulus, capital injection in banks, and reached dangerous levels in 2010 for the balance of European economies, as it follows: Greece 115%; Italy 116%; Belgium 97.2%; UK 78.7%; Portugal 77.4%, France 76.1%; Germany 72.1%; Austria 69.1%; Ireland 64%, Finland 41.3%. Many analysts think that the problem in today's Europe is due to a natural evolution of things and that the evolution of the financial crisis follows this pattern: over indebtedness was shifted from home buyers on to banks, then transferred to governments (e.g. the recent sovereign debt

crisis in Greece is only a natural development of things).

To prevent amplification of budgetary problems and their propagation in the EU, the 27 EU states have to reduce public deficit and have received guidelines from the EU to achieve this goal within 2011-2014.

5. The situation of Greece, “Achilles Heel of the EU”

Greece has accumulated high levels of debt during the decade before the crisis, when capital markets were highly liquid. As the crisis has unfolded, and capital markets have become more illiquid, Greece may no longer be able to roll over its maturing debt obligations. Some analysts have discussed the possibility of a Greek default. Greece has relied heavily on external financing for funding the budget. Between 2001, when it adopted the euro as its currency, and 2008, Greece’s reported budget deficits averaged 5% per year, compared to a Euro-zone average of 2%. Its current account deficits averaged 9% per year, compared to a Euro-zone average of 1%.

The causes of financial crisis in Greece can be grouped into two categories, namely:

- *Domestic causes*: high government spending of successive Greek governments; weak revenue collection; structural rigidities in Greece’s economy.

- *International causes*: access to capital at low interest rates after adopting the Euro; weak enforcement of EU rules concerning debt and deficit ceilings facilitated Greece’s ability to accumulate high levels of external debt.

To prevent the entry of Greece into collapse, Euro-zone countries and the International Monetary Fund, seeking to halt a widening European debt crisis that has threatened the stability of the Euro, agreed to extend Greece an unprecedented €110 billion (\$147 billion) rescue in return for Draconian budget cuts. Germany, whose population has been deeply sceptical of a bailout, bore the largest share of the Euro-zone contribution, namely €22.3

billion of the total amount. The Euro-zone loans carry an interest rate of about 5%, compared to about 3% for the IMF contribution. Some €10 billion will be set aside as “bank stabilization” fund for use if the condition of Greek financial institutions worsens.

The Greek government has promised to slash and then freeze public sector wages, raise sin taxes, increase value-added taxes, impose a new levy on businesses, cut pension payments and increase retirement ages for some public-sector workers. The steps are expected to save the state €30 billion through 2013. Thus, the Greek government has adopted the following measures:

- Public sector limit of €1,000 introduced to bi-annual bonus, abolished entirely for those earning over €3,000 a month;
- An 8% cut on public sector allowances and a 3% pay cut for DEKO (public sector utilities) employees;
- Limit of €800 per month to 13th and 14th monthly pension instalments; abolished for pensioners receiving over €2,500 a month;
- Return of a special tax on high pensions;
- Changes concerning laws governing lay-offs and overtime payment;
- Extraordinary taxes imposed on company profits;
- Increases in VAT to 23%, 11% and 5.5%.
- 10% rise in luxury taxes and taxes on alcohol, cigarettes, and fuel;
- Equalization of men and women pension age limits;
- General pension age has not been changed, but a mechanism has been introduced to scale them to life expectancy changes;
- Average retirement age for public sector workers has increased from 61 to 65;
- Public-owned companies to be reduced from 6,000 to 2,000.

Only the nearest future will show whether these harsh methods have generated the appropriate results.

6. Broader implications of Greece crisis: Spillover Effect

During the last two years, there were several concerns that Greece's crisis could spill over to other European countries in difficult economic positions, including Portugal, Ireland, Italy, and Spain. European authorities warned that debt programs in Greece and other high deficit countries such as Spain, Portugal, Ireland and even Italy may affect stronger European countries. Greece's foreign policy focus on the region and growing trade volumes between neighbour countries like Serbia, Albania, Macedonia, Romania, Bulgaria and Turkey could not remain indifferent to the magnitude of the crisis next door.

All their concerns were entirely justifiable. PIIGS ZONE, that is Portugal, Ireland, Italy, Greece, Spain, borrowed heavily during the credit bubble. Some argued that the spillover effect could appear in Europe just as it appeared in Asia, where investors' herding behaviour contributed to the spillover of Asian financial crisis (1997-1998). Others argued the spillover hypothesis was unlikely to happen: the low levels of national savings in Greece and Portugal put these countries in the weakest financial position, at 7.2% of GDP and 10.2% of GDP respectively, compared to an EU average of approximately 20%. Spain and Ireland, by contrast, were closer to the EU average at 19% of GDP and 17% of GDP, respectively, putting them in a stronger financial position.

Two macroeconomic indicators were significant for the evolution of these countries, namely: government expenditure as percent of GDP and government consolidated gross debt as percent of GDP. The figures for each country were as following: Portugal: spending 51%; debt 77%; Ireland: spending 48%; debt 64%; Italy: spending 52%; debt 116%; Greece: spending 50%; debt 116%; Spain: spending 46%; debt 53%.

7. Conclusions

All in all, when referring to the implications of the world financial crisis on the European public deficit, it can be stated that the bubble disease has spread to the whole financial system, making governments to bail banks and acquire liabilities. Although liabilities are necessary, borrowing more to satisfy previous debt obligation will only delay the problem, not solve it. Nowadays, it's too early to measure the effectiveness of the bailout plan for the Euro-zone. In our view, time is the best solution to the debt problem. Giving it 5-8 years, reducing spending and increasing saving to pay down the debts is the most pragmatic way of solving it.

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Subsection: Accounting

INTELLECTUAL CAPITAL REPORTING AND DISCLOSURE IN THE ANNUAL REPORTS OF ROMANIAN MANUFACTURING LISTED COMPANIES – THEORETICAL FRAMEWORK

Bogdan Victoria

University of Oradea, Faculty of Economics

Balint Platon Judit

University of Oradea, Faculty of Economics

Farcaş Mariana

University of Oradea, Faculty of Economics

Abstract: *One of the most researched topic regarding financial reporting and disclosure of today is the way intellectual capital or knowledge assets contributes to the improving of the quality of information disclosed and create or add value to business performance. Also, it is acknowledged that a company has access to a variety of tools for disclosing information on intellectual capital. In our study we have decided to investigate the concept, the measurement models and the intellectual capital disclosure practices using as the source of our documentation books, articles, working papers and online publications. So, in the first part of our research we have presented several points of view in respect to the concept of knowledge assets or intellectual capital and in the second part we have reviewed the literature on the topic highlightening several scholars opinion on reporting and disclosure issues.*

Keywords: *knowledge, intellectual capital, reporting practices, disclosure, annual reports*

JEL codes: *M41, M10, G14, D83*

1. Introduction

In knowledge based economy value is the result of knowledge and information. Moreover, business organizations can not generate profits without ideas, skills talent and intelligence of humans. As Depres and Chauvel (2000) observed beside it's concentration on intangibles, knowledge economy is characterized by networked, digital, virtual and extremely fast moving businesses, better performing, the primary factor of production is knowledge. The three pillars of knowledge economy according to Stewart (2001) are:

- knowledge as the most important factor of production; creating value through knowledge economy is the process of creating value from information;
- knowledge assets; intellectual capital has become the most important knowledge assets embedded in talent, skills, know-how, know-

what, relationships and other human values that can be used to create value;

- adaption to knowledge economy in terms of adopting new business language, new management techniques, new corporate governance practices, new technologies and strategies and why not, new accounting.

Studying the literature written on the topic we have found as Tseng and Goo (2005) underlined that there is a common lack of a clear definition that would appropriately describe the concept of intellectual capital. Also, regarding intellectual capital components we have found in the studied literature that intellectual capital is not detached. As Maditinos, Sevic and Tsaidiris (2009) pointed out several scholars grouped intellectual capital in four categories: human capital; structural capital; customer capital and innovation capital (Edvinsson and Malone, 1997; Ross et al., 1997; Stewart,

1997, Sveiby, 1997; Chen et al., 2004, Tseng and Goo, 2005).

Our paper is organized as follows. The next section objective is to underline the differences between classical assets and knowledge based assets focusing on definition and recognition of intellectual capital. The literature review section is concentrated on intellectual capital measurement models and also reporting issues. In the last section we have drawn the conclusions and the limits of our study.

2. From classical assets to knowledge based assets

Companies, regardless of their size, in order to undertake their activity and create value, own both tangible and intangible assets. Buildings, work equipments and instalations, computers are, of course, tangible assets, and the ways in which these generate value for a company and affect performance have been the subject of theoretical and practical speculations in economic literature in past centuries. On the other hand, the considerable growth in the diversity of intangible assets has reoriented, in the last few decades, the focus of researchers from tangible to knowledge based assets. But, what are knowledge based assets? In contrast with tangible assets, these are more difficult to identify, to clasify, to asses and highlight in the structures of financial situations. Yet, in a knowledge based economy, it is imperatively important to understand which activity generates real added value and to adapt contemporary financial reporting to this economic reality. Knowledge based assets or intangible assets have existed for a very long time. As Cohen (2008) so vividly remarked, the first caveman to light a fire knew that he held valuable information. This ability of his represented an intangible asset. Expanding on this reasoning, Cohen underscored the fact that the people who invented the alphabet or the ones who created the calendar or the numeral system were early inventors of extremely important intangible assets. It's a

pity they did not know how to patent their inventions or protect their works through copyright (Cohen, 2008:25). It is vital to keep in mind that the terms of knowledge, intangibles and intellectual capital are usually used interchangeably. As Mansour et al. (2008) emphasize the terms of intangibles in accounting literature, knowledge assets by economist and intellectual capital in the management and legal literature are refer essentially to the same thing: a nonphysical claim to future benefits. Unlike the physical or classical assets, the knowledge assets are characterized by increasing return on scale. Return is the outcome of value generated by innovation (discovery), unique organizational designs or human resources practice (Mansour et al., 2008).

An interesting point of view is of Bontis (1998). He emphasized that intellectual capital has been considered by many, defined by some, understood by a select few and formally valued by practically no one. Most of the literature written on intellectual capital, according to Bontis (1998) makes a set of claims that are related to the value and intangible nature of this resource. As Bontis (1998) noticed the concept of intellectual capital was first introduced by Kenneth Galbraith in 1969, who believed that intellectual capital was more than pure intellect but included "intellectual action". It is the move from "having" knowledge and skills to "using" the knowledge and skills that is captured in a numerous way in the literature. The management literature shows two main streams that discuss knowledge assets, in opinion of Marr et al. (2004). One of them, taking an epistemological approach, interprets knowledge as an entity and discusses the differences between information and knowledge and the implications for knowledge management, whereas the other stream of literature discusses knowledge as an organizational asset that has to be managed in order to improve organizational performance. The later stream of research seeks to help managers in managing and

evaluating the company performance (Teece, 2000; Roos et al, 1997; Stewart, 1997). In Marr et al. vision a major contribution provided by this research stream is the concept of intellectual capital, which help managers to identify and classify the knowledge components of an organization. The authors also considered that intellectual capital contributed to a better understanding of knowledge assets and was a first step towards a less abstract and more operative conceptualizing of knowledge.

As Abeysekera (2007) noticed several authors have taken a long-term view in defining and analyzing the nature of intellectual capital, though their definitions have varied significantly (Edvinsson and Sullivan, 1996; Brooking, 1997; Edvinsson, 1997; Edvinsson and Malone, 1998; Klein, 1998; Knight, 1999). Because in our paper we are analysing mainly intellectual capital reporting and disclosure, we are interested in the definition of Edvinsson and Sullivan (1996). In their opinion intellectual capital can be defined as knowledge that can be converted into value. Buck et al. (2001) consider that the expression “intellectual capital statement” refers to “capital”, emphasizing the accounting value. While some authors use the concept of intellectual capital while referring to the knowledge of a social community, such as an organization or professional practice groups (Nahapiet and Ghoshal, 1998), other scholars interpret intellectual capital as a human resource (Boudreau and Ramstad, 1997; Liebowitz and Wright, 1999) or associate it with information technology (Davenport and Prusak, 1998). Abeysekera and Guthrie (2002) consider there is considerable ambiguity as to what constitutes intellectual assets, some scholars including all intangibles (Ross et al., 1997; Knight, 1999) but others do not recognize intangibles in the financial statements (Caddy, 2000; Edvinsson and Sullivan, 1996). Abeysekera and Guthrie (2002) also point out the fact that most of the definitions of intellectual capital are based on recognizing knowledge or intellectual assets

only. They have ignored the possibility of existence of intellectual liabilities in the concept of intellectual capital (Harvey and Lusch, 1999; Caddy 2000) and external intellectual liabilities (Dzinkowski, 2000). But Abeysekera (2001) suggests that if knowledge is well managed then value is added via intellectual capital and if it is badly managed, this may lead to intellectual liabilities. According to Tseng and Goo (2005) there is a common lack of a clear definition that would appropriately describe the concept of intellectual capital. However, they seem to adopt Stewart’s (1997) definition, also widely, recognized, that intellectual capital has been formalized, captured and enforced so as to generate an advanced value to the organization. Regarding intellectual capital components we have found in the studied literature that intellectual capital is not detached. As Maditinos, Sevic and Tsaidiris (2009) pointed out several scholars grouped intellectual capital in four categories: human capital; structural capital; customer capital and innovation capital (Edvinsson and Malone, 1997; Ross et al., 1997; Stewart, 1997, Sveiby, 1997; Chen et al., 2004, Tseng and Goo, 2005).

3. Literature review on intellectual capital measurement models

As reflected in the various studies conducted by different scholars found in the literature, measuring intellectual capital is not a science as “exact” as mathematics or accounting. According to CEN (2004) (1), there are many interdependencies with other activities and quite often the context in which value is created is not the same as the one in which some of the knowledge efforts take place. And as noted by Iske and Boekhoff (2001) value is not an “intrinsic” property of knowledge: the value of knowledge fully depends on how knowledge is being used. Some knowledge can have a lot of value in one situation but be worthless in another. As

we can see in the figure bellow, value can be added in five dimensions:

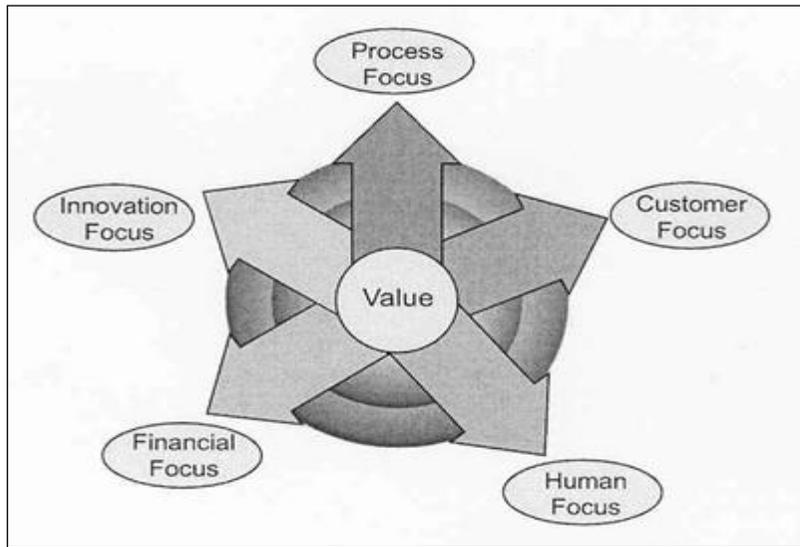


Fig 1.

Source: CEN (2004), European Guide to good Practice in Knowledge Management – Part 4: Guidelines for Measuring Knowledge Management, pg. 7

Many approaches to the measurement of intellectual capital can be identified in the literature. In Sveiby's (2) view the measuring approaches for intangibles fall into at least four categories of measurement approaches.

Direct Intellectual Capital methods (DIC) estimates the value of intangible assets by identifying its various components. Once these components are identified, they can be directly evaluated, either individually or as an aggregated coefficient.

Market Capitalization Methods (MCM) calculates the difference between a company's market capitalization and its stockholders' equity as the value of its intellectual capital or intangible assets. **Return on Assets methods (ROA)** - average pre-tax earnings of a company for a period of time are divided by the average tangible assets of the company. The result is a company ROA that is then compared with its industry average. The terms of macroelements or at a lower level, that is at the organizational component level.

difference is multiplied by the company's average tangible assets to calculate the average annual earnings from the intangibles. Dividing the above-average earnings by the company's average cost of capital or an interest rate, one can derive an estimate of the value of its intangible assets or intellectual capital. **Scorecard Methods (SC)** - the various components of intangible assets or intellectual capital are identified and indicators and indices are generated and reported in scorecards or as graphs. SC methods are similar to DIC methods, expect that no estimate is made of the value of the intangible assets. A composite index may or may not be produced. The figure bellow highlights the four above mentioned well known measurement approaches and shows that one may consider various facets, such as financial valuation, or high levels of evaluation that measure the effect of a knowledge management implementation in

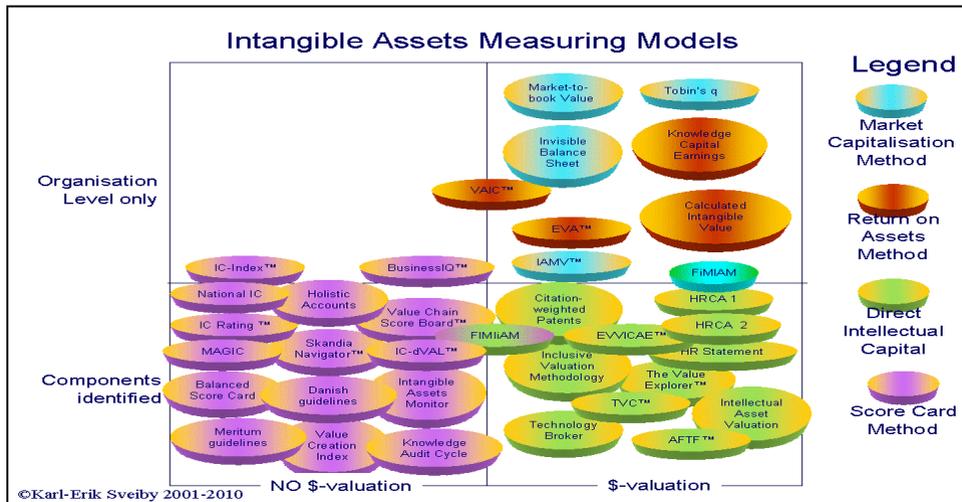


Fig. 2

Source: Karl-Erik Sveiby, *Methods for Measuring Intangible Assets*, 2001, updated 27.04.2010

As we have found in the studied literature **Skandia** is considered the first large company to have made a truly coherent effort at measuring knowledge assets (Bontis 1996; Huseman & Goodman, 1999). In 1985 Skandia developed the first internally intellectual capital report and became the first company to issue an intellectual capital addendum accompanying its traditional financial report to shareholders in 1994. Leif Edvinsson, the chief architect behind Skandia's initiatives, developed a dynamic and holistic intellectual capital reporting model called the Navigator with five areas of focus: financial, customer, process, renewal and development and human capital (Bontis, 2001). According to Edvinsson and Malone (1997) the new accounting taxonomy sought to identify the roots of a company's value by measuring hidden dynamic factors that underlie the visible company of buildings and products. As Bontis (2001) noticed Skandia's value scheme contains both financial and non-financial building blocks that combine to estimate the company's market value. This conceptualization achieved a balance for Skandia in trying to represent both financial and non-financial reporting, uncovering and

visualizing its intellectual capital, tying its strategic vision to the company's core competencies reflecting knowledge sharing technology and knowledge assets beyond intellectual property and reflecting its market value better.

The **Intangible Assets Monitor** (Sveiby, 1997) is a method for measuring intellectual capital and a presentation format that displays a number of relevant indicators for measuring intellectual capital on a simple fashion. The choice of indicators depends on the organizational strategy. On the surface, the Intangible Assets Monitor looks similar to the Kaplan Norton Balanced Score Card, however there are significant differences. The Intangible Assets Monitor can be integrated into management information systems and it should be accompanied by a number of comments. Only a few of the suggested indicators should be selected and designed the main purpose to achieve is to get a broad picture. So, essentially management selects indicators, based on the strategic objectives of the firm, to measure four aspects of creating value from three classes of intellectual capital labeled: people's competence, internal structure, external structure and value

creation ways are: growth, renewal, utilization/efficiency and risk reduction/stability.

Intellectual Capital-Index is an example of “second generation” practices that attempt to consolidate all the different individual indicators into a single index, and to correlate the changes in intellectual capital with changes in the market (Roos et al., 1997). The concept of an IC-Index was first advanced by Goran Roos and his colleagues at Intellectual Capital Services Ltd., and was first used by Skandia in its IC supplement to the annual report. According to Roos et al. (1997) the IC-Index has several distinct features: it is an idiosyncratic measure; it focuses on the monitoring of the dynamics of IC; it is capable of taken into account performance from prior periods; it shed light on a company different from an external view typically based on an examination of physical assets; it is a self-correcting index meaning that if performance of the IC-index does not reflect changes of the market value of the company, then the choice of capital forms, weights and/or indicators is flawed. Like most other measures of tangible assets, an IC-index does depend on value judgements, in the choice of weights, indicators and even the assumption that intellectual capital is present and important in company operations. Also, Roos et al. (1997) argue that intellectual capital measurement and especially a consolidated measure such as the IC-index makes a larger part of the organization visible and open to valuation.

According to Bontis et al. (1999), **Economic Value Added (EVA)** was introduced by Stern Stewart as a comprehensive performance measure that uses the variables of capital budgeting, financial planning, goal setting, performance measurement, shareholder communication and incentive compensation to account properly for all ways in which corporate value can be added or lost. While several scholars consider that economic value added is the net result of all managerial activities, Bontis et al (1999) described EVA

as providing a common language and benchmark for managers to discuss value creation and also can increase the legitimacy of a company in the eyes of financial markets. EVA is intended to offer improvements to market value added calculation. Similar to EVA, MVA method derives from the Alfred Marshall concept of „economic profit”. MVA is the difference between actual market value of the company (invested capital) and the present value of invested capital. In other words MVA is the difference between cash out or what investors could get by selling at the present conditions of firm and market and cash in or what investors contributed over the years from the beginning of the firm.

Tobin's Q ratio named Q ratio or q, is the market value of invested capital relative to assets replacement cost (Tobin, 1969). The Q is the ratio of the stock market value of the firm divided by the replacement cost of its assets and changes in Q provide a proxy for measuring effective performance or not of a firm's intellectual capital. Tobin developed the Q ratio as a measure to help predict investment decision independent on macroeconomic factors such as interest rate. In Stewart's (1997) opinion Tobin's Q ratio was not developed as a measure of intellectual capital, but former Federal Reserve chairman Alan Greenspan has noted that high Q and market to book ratios reflect the value of investments in technology and human capital. Norton and Kaplan's **Balance Score Card** was created to help managers to transform organization's strategy into a reliable set of performances that will provide framework for a strategic measurement and management system (Anghel, 2008). A company's performance is measured by indicators covering four major focus perspectives: financial perspective, customer perspective, internal process perspective and learning perspective (Kaplan and Norton, 1996). Balance Score Card indicators are based on the strategic objectives of the firm. This measurement model of intangible assets was developed considering the ability of a

company to exploit and develop its intangible assets. The **Value Added Intellectual Coefficient™ (VAIC™)** methodology, developed by Ante Pulic (1998), is an analytical procedure designed to enable management, shareholders and other relevant stakeholders to effectively monitor and evaluate the efficiency of VA by a firm's total resources and each major resource component. Pulic (1998) states the higher the VAIC™ coefficient, the better the efficiency of VA by a firm's total resources. Formally, VAIC™ is a composite sum of three indicators: (1) Value Added Capital Coefficient (VACA) – indicator of VA efficiency of capital employed; Value Added Human Capital (VAHU) – indicator of VA efficiency of human capital; and (3) Structural Capital Value Added (STVA) – indicator of VA efficiency of structural capital.

Baruch Lev's model (1999), knowledge capital earnings, reveals a way to measure assets, intellectual earnings and knowledge earnings. As Lev's describe his model in an interview taken by Alan Webber in 1999 (3), *„it's a computation that starts with what I call normalized earnings – a measure that's based on past and future earnings...My approach looks at the past. Based on those forecast, I create an average and I call that average normalized earnings. From those normalized earnings, I then subtract an average return on physical and financial assets, based on the theory that these are substitutable assets...when I subtract from the total normalised earnings a reasonable return on the physical and financial assets I define what remains as the knowledge earnings”*. Further on in the same interview Baruch Lev mention that technological capabilities index is based on measures of inputs, such as investment in R&D, investment in product development, investment in information systems; on measures of intermediate outputs, such as patents and trademarks; on measures of competitive position such as the number of

people who access a particular web site and on measures based on the ultimate output – commercialization.

These were some of the models that over the past years were developed to measure intellectual capital or in general intangible or knowledge assets.

4. Literature review on intellectual capital reporting practices

Several scholars have concentrated their efforts toward understanding and analyzing intellectual capital reporting practices. For instance, Abeysekera and Guthrie (2006) identify the following categories of intellectual capital reporting: ratios and values; reporting intellectual capital via intellectual capital statements; theoretical models. Concerning reporting intellectual capital as ratios and values Roos et al. (1997) states that intellectual capital is by definition intangibles and therefore the only possible way to measure them is by proxy variables or indicators. Authors like Abeysekera and Guthrie (2006) considered that there techniques could be classified into two broader sub-categories: the firm macro level for inter-firm comparisons; and of measuring and reporting within firm level (micro) for interdivisional comparisons. In regard to reporting intellectual capital through intellectual capital statements, empirical models have been proposed to measure intellectual capital items (Leibowitz & Wright, 1999; Decker & Hoog, 2000). Some models used activity based costing to determinate cost and market value to determine revenue. In Abeysekera's vision (2001) another conceptual approach is to report intellectual capital in relation to the “fair value” of the firm and to recognize intellectual revenue or intellectual expense as the difference of fair value between two periods within the traditional accounting system. Also, Abeysekera and Guthrie (2006) identified five major frameworks of intellectual capital reporting: structures holding intellectual assets, developed by

Sveiby (1997), focused on intellectual assets; capital holding intellectual items, that analysis intellectual capital in relation to intellectual assets (Edvinsson, 1997; Edvinsson and Malone, 1998; Roos et al., 1997); assets representing intellectual capital, that focused on intellectual assets and was in Brooking (1999) interest; strategic and measurement root focused on the role of intellectual capital, that was in attention of Roos et al. (1997) research and a combination of assets and capital representing intellectual capital, developed by IFAC in 1998 and Dzinkowski (2000).

As Abeysekera (2001) noted annual reports are an ideal research location for applying the intellectual capital framework because they provide a good proxy with which to measure the comparative positions and trends of intellectual capital between firms, industries and countries. Several papers and studies that we have found in the literature concerning intellectual capital issues has used annual reports as source documents to discover the status of intellectual capital of companies (Abeysekera and Guthrie, 2005; Brennan, 2001; Guthrie and Petty, 2000; Vergauwen and van Alem, 2005). The value-creation capabilities of different organizations and entities are studied in the last decade by several authors like Edvinsson (2002), Bontis (2004), Tallman et al. (2004), Bonfour and Edvinsson (2005), Schiuma et al. (2005). Also, several theoretical contributions have underlined the strategic importance of intangible resources for the value creation capabilities, some of them tried to build approaches and tools more oriented towards project and management processes or analyzed the relationship between knowledge resources, value creation capabilities and competitiveness (Bontis, 2004; Bonfour and Edvinsson, 2005; Pulic, 2005). Lev and Sougiannis (1996) valued and calculated intangibles and then correlated those values with financial measures while Edvinsson (1997) identified the so called “hidden values” of a company and developed an

intellectual capital management model. Also, various prior studies have suggested that the level of intellectual capital disclosure in annual reports is relatively low.

5. Conclusions and limits of the research

As it can be understood from the above presented issues concerning the intellectual capital concept, measurement models and reporting practices we did not found in the studied literature on the topic much homogeneity and uniform views. Also, our work was a difficult one taking into account the very rich and diverse literature. However, we consider that we have synthesized the main or important aspects regarding the definition, the measurement and reporting of knowledge assets. But, there are a few aspects that were not discussed and this is surely one of the limits of our study. Another limit refers to the fact that we have not pointed out separately the contributions of domestic authors interested in this subject.

Note

(1) European Committee for Standardization (Comite European de normalization), European Guide to good Practice in Knowledge Management – Part 4: Guidelines for Measuring Knowledge Management

(2)

<http://www.sveiby.com/articles/IntangibleMethods.htm/updated> 07 April 2010

(3)

<http://www.fastcompany.com/magazine/31/lev.html?page=0%2C3/download> on 10.01.2011

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PRINCIPLES AND PROCEDURES ON FISCAL

Morar Ioan – Dan

University of Oradea, Faculty of Economics

Abstract: *Fiscal science advertises in most analytical situations, while the principles reiterated by specialists in the field in various specialized works*

The two components of taxation, the tax system relating to the theoretical and the practical procedures relating to tax are marked by frequent references and invocations of the underlying principles to tax.

This paper attempts a return on equity fiscal general vision as a principle often invoked and used to justify tax policies, but so often violated the laws of fiscality.

Also want to emphasize the importance of devising procedures to ensure fiscal equitable treatment of taxpayers.

Specific approach of this paper is based on the notion that tax equity is based on equality before tax and social policies of the executive that would be more effective than using the other tax instruments.

I want to emphasize that if the scientific approach to justify the unequal treatment of the tax law is based on the various social problems of the taxpayers, then deviates from the issue of tax fairness justification explaining the need to promote social policies usually more attractive to taxpayers.

Modern tax techniques are believed to be promoted especially in order to ensure an increasing level of high efficiency at the expense of the taxpayers' obligations to ensure equality before the law tax.

On the other hand, tax inequities reaction generates multiple recipients from the first budget plan, but finalities unfair measures can not quantify and no timeline for the reaction, usually not known.

But while statistics show fluctuations in budgetary revenues and often find in literature reviews and analysis relevant to a connection between changes in government policies, budget execution and outcome.

The effects of inequality on tax on tax procedures and budgetary revenues are difficult to quantify and is among others to this work.

Providing tax equity without combining it with the principles of discrimination and neutrality in the tax to ensure an objective of fiscal policy.

Keywords: *fiscal science, the principles of taxation, fiscal, tax, fiscal revenues, budget, crisis*

JEL Codes: *H20*

Imposition of the theoretical principles of science is tax procedures such as the practical form of taxation, the latter being comprised of specific operations taxation.

The principles, generally, there are rules, customs, descriptions or definitions accepted in time by repeating to their individualization as dedicated as such time.

How the tax is an important part of social life, from ancient times it was a high regulatory component level in different periods in the evolution of society.

Feeding practices are emerging as national budgets techniques quite late, we can say that the great empires like the Roman Empire, Byzantine Empire or state organizations during the later Middle Ages and especially in modern times have used techniques that have evolved time, so to speak in contemporary modern tax procedures and techniques.

Although ways to attract financial resources from state treasures states or organizations have the same economic content, however, different forms from country to country while

also differed. But the great thinkers and especially classical political economy, Adam Smith precursor fails to define the rules governing the taxation process more objective to be achieved, namely in the form of imposing peaks.

Maximums were imposed along the remaining time and raised in the special cases in the literature so far is talk of three groups of principles of taxation, namely the principles of fiscal efficiency, fiscal equity principles and principles of economic policy and social.

Principles of taxation yield based on the idea that taxes should be placed so that it brings maximum revenue with minimal state expenditure, in other words, is characterized by productivity. Productivity in turn is an indicator that expresses the efficiency, and in this case is also a feature of the tax cost.

As an indication, in general, productivity expresses the ratio between results and effort, and if taxes this indicator is the ratio between tax revenues and state efforts to attract them, in fact, tax administration costs.

These costs are quantified and the fiscal system can be determined, in fact, are the fiscal costs of maintenance. We know that if indirect taxes tax procedures involve a higher tax payers in the process starting with maintenance records purchases and sales, continuing with the calculation of taxes, their declaration and of course their pay.

The participation of contributors to the tax administration requires an effort on their part and savings from the tax authority.

It is interesting to determine the involvement of taxpayers in the administration of taxes and how constitutional law is the imposition of tax by taxpayers that they were required to maintain records on tax and other obligations, such as declarations on a particular type of data carrier, or the obligation to submit and maintain certain records prior accounting and other information related to trim taxes otherwise.

On the other hand in case of direct taxes is based on a fiscal apparatus restricted

participation of taxpayers, meaning that taxes on buildings, land, vehicles, tax on personal income from independent activities carried out by the retained the source of rents from agricultural activities and other with the end of regulation, the unit tax on the taxpayer prepares the tax statement, enforceable document, it will be followed to the collection of amounts assessed.

If the profit tax, income microenterprises, dividends and others taxpayer tax return and calculate the actual tax. And if those indirect taxes and direct tax authority has the right and obligation to control activity for each tax separately. In this context we can say that indirect taxes are more profitable than direct taxes.

Tax return is influenced by the level of accuracy of tax law, if it allows or not or if you fraudulent tax evasion against the law even if it is located that you do not leave room for interpretation. If the tax is paid by all taxpayers who have taxable same table, it is characterized by universality, quality tax cost.

So we know that in fact violated tax laws are fraudulent or are bypassed by the taxpayers, so that part of planned to collect tax revenues do not reach the collection. Level budget tax revenue is a function and device performance fiscal control, the device should be based on tax laws and procedures of tax control equivocal performance.

The level of failures to receive is not equal to the degree of tax evasion primarily because we do not know if the planned revenues are well grounded and if he can not evolve as macroeconomic indicators once assumed the public budget planning.

The most important problem of collecting the fraudulent evasion of taxes is an important topic as complicated as it is.

In the literature often talks about avoiding the tax law on an escapist phenomenon without breaking the law, called the fraudulent evasion.

In this context I put my problem reporting escapist content phenomenon, if we refer to

tax law, if we refer to planned tax revenues or the principle of universality of taxation. In the first case the tax law is not broken, so in terms of jurisdictional comparison is pointless.

Reporting on planned tax revenue does not generate an eloquent comparison to the process of planning can be faulty and so the comparison suffering. Remains third comparison, the principle of imposing, this principle can be violated, in which, however, does not violate law rule than universally accepted.

I personally, not breaking the law does not accept such employment, considering honest trader and indicates those interested in just talking about tax evasion, fraud phenomenon par excellence. Principles violation of universality, a principle is violated continually bare fact, primarily affecting profitability and return on any taxation can be no question of tax fairness.

A tax and cost is characterized by stability, a tax that must be seen as two spots of view, namely, the stability of the tax law and tax revenue stability. Stability of resistance translates into tax law tax law in time, which means that the law would be well located and comprises all the details required in the tax case.

Cash inflows fiscal stability means that when tax rates change and change proceeds in the same way. It is said that excise taxes are stable so that when tax rates rise and increase revenues.

If these taxes are apparently betting heavily on the psychological factor of about certain flaws in the case of alcohol and tobacco, the habit if auto fuel.

Another quality of taxes, namely the imposition of convenience, in fact one of the maxims of taxation, taxation with fairness, certainty of imposition of taxation and economic qualities, put forward by Adam Smith, can be considered a necessary feature cost taxes, and contributing to increasing the collection tax revenue.

Fairness is a principle of taxation often invoked in literature, but it seems the most difficult fiscal respected in practice. Fair treatment for all taxpayers from the tax authorities is a goal difficult to achieve in practice in tax and general appropriateness societate. Totusi promotion, discrimination and neutrality to the tax authorities may result in equal treatment from the tax law.

Equality before the treasury can be absolute when the taxpayer owes an equal amount of Tax expressed in absolute terms, or may be relative when the taxpayer owes a relatively equal nsuna expressed in relative numbers, in percent, this is the proportional share.

In time, when economic and social life to sophisticated and revenue obtained from various sources the question of contributory capacity taxpayers, taking into account their economic situation, their social, family, their health status and other variables to justify differential treatment to the tax authority, in other words one that can pay more to do.

They rely so under the influence of leftist thought after the French Revolution to provide income tratamentul echitabil public increasingly larger.

The literature talks about horizontal equity and vertical equity on, the evolution of the concept of tax fairness.

Treatment involves horizontal comparison income of two or more persons get equal pay but from different sources, and if vertical equity is to compare the incomes of two or more different persons who earn income from the same source, context in which Professor Constantin Tulai in his "Public Finance and Taxation" highlights the risk of such comparisons, in fact beneficial to express report with the taxpayer, to transfer the emphasis on gender equality before tax through tax.

Time evolution of the concept of tax equity reflects the intent to transfer treasury importance to gender equality through taxes or tax reports, obviously in financial purposes. Accepting equality through taxes, accept and practice invasive in terms of tax

authorities, tax policies are used exclusively for government.

Of course many of our peers need government help because of illness, because of family and of course other reasons that they need help in different ways. In this context, however, we must ask ourselves whether such interventions for social purposes to be promoted through taxes or using other levers.

It is obvious that if the executives involved in the tax account, the first result is that it distorts the acceptance address, that the official intention of the taxpayer and those who do not enjoy such tax benefits conferred will try to bypass the tax law.

I think for social interventions can be promoted through other means, such as state social insurance systems, at other institutions of social protection for the taxpayer and not to confuse the proper push other adverse judgments propriety, and labor market competition capital and ultimately to tax evasion.

On the other hand and tax procedures are hampered and will suffer in terms of efficiency and their bureaucratic phenomenon, by appealing to all sorts of supporting operations to access tax advantages or disadvantages for others put in the work of contributors.

The third group of principles of taxation are those that concern economic and social policies. Taxes are the main source of

revenue for the state, but a tool, an effective lever to influence consumatori.Principiile taxpayers in their capacity as neutral taxation, the tax discrimination, lack of arbitrariness, impersonality and the legitimacy of taxes.

Use taxes in their capacity as leverage requires diversifying financial operations tax procedure.

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IFRS COMPLIANCE REGARDING INFORMATION DISCLOSED BY COMPANIES IN CONSOLIDATED FINANCIAL STATEMENTS - *CASE STUDY ON IAS 23 BORROWING COSTS APPLICABILITY*

Tiron-Tudor Adriana

Babeş-Bolyai University, Faculty of Economic Sciences and Business Administration

Fekete-Pali-Pista Szilveszter

Babeş-Bolyai University, Faculty of Economic Sciences and Business Administration

Dragu Ioana-Maria

Babeş-Bolyai University, Faculty of Economic Sciences and Business Administration

Abstract: *This paper concentrates on information disclosure regarding IAS 23, being included in accounting research field. It comprises an empirical study on the correlation between information published by companies in consolidated financial statements with respect to borrowing cost policies and a series of variables that characterize a firm. The objectives of this paper involve estimating and establishing an econometric model in which is assumed that disclosure index for information required by IAS 23 depends on certain elements in the form of country of origin, sales, total assets, debt ratio, solvency, ROA and ROE. International accounting literature presents a series of studies on the subject of compliance with IAS disclosure requirements. Similar with this paper, various authors considered annual reports as starting point for data gathering in their reasearch on disclosure phenomena. The criteria used for data gathering, processing and analysing have been previously used in a successful manner by important scientists who published in accounting field. The methodology used involves Disclosure Index computation, as well as SPSS data processing, analysis and interpretation. Results show that the model is valid, meaning that there is correlation between information disclosure with respect to IAS 23 and the analyzed variables. According to our estimated econometric model, most of the variables maintain a certain influence on disclosure as we can observe a significant correlation level between the studied elements. This research contributes to the development of both accounting field and international accounting literature, by studying borrowing costs disclosed information in relation to certain elements that best characterize the activity of a company. Although an empirical paper, it concentrates also on accounting practices, as it uses real data extracted from annual reports and consolidated financial statements. The importance of this research relies in its originality approach, by studying the information disclosure for borrowing costs that represent one of the most important accounting fields.*

Keywords: *information, disclosure, borrowing costs, annual reports, correlation*

JEL Codes: *C51, C53, M41*

I. Introduction

International accounting literature contains a serie of studies on disclosure. The most recent of them, involve the analysis of compliance with IAS requirements. Many scientists have started to consider annual reports in their reasearch on disclosure phenomena. In addition, this paper uses certain criteria in data gathering, processing and analysing that have been previously used in a successful manner by important scientists

who published in accounting field. Regarding the motivation for implementing this research, there is a need to establish the level of IFRS compliance, as both recognition and appliance of IAS is considered to be an essential element in the process of accounting development. Further on, by analysing information disclosure in financial reports, and defining its correlation to some key indicators that show the financial position and profitability of companies, IFRS requirements

regarding information made public could meet progress in compliance. This study contributes to a better understanding of IFRS compliance as well as of the factors that influence information disclosure. Furthermore, international organisms from accounting field should supervise IAS acceptance and thus the process of disclosure is one important part of it.

II. Literature review

Nowadays is becoming more and more difficult to make economic forecasts without having the necessary information. Decisions cannot be made in the absence of information disclosure. Further on, in all fields there is a need for published information, otherwise negative effects of non-disclosure can appear (Edmiston 2011:281-320). There is evidence of the fact that a 'real-time reporting' can be attained only through continuous evolution of financial reporting, in order for accounting standards and policies adopted by companies in practice to reach a common point (Kueppers and Sullivan 2010:292). International accounting literature mentions the benefits of improved disclosure (Lang and Lundholm 1993), as firms increase intensity of disclosure efforts before offering public debt and equity, and thus from compliance with international standards (Barry et al. 1991). There have been many attempts to study the level of disclosure for mandatory and voluntary issues using disclosure index. Donna Street (Street 2001:27-35) made a research on factors that generate noncompliance, and uses regression analysis in order to estimate their correlation to information disclosure. By studying the information made public in annual reports, some scientists try in fact to underline the importance of disclosure for accounting and for the economy, in general. According to them, the process of disclosure assumes three main aspects or characteristics of the information to be disclosed (Hossain 2008: 661): efficiency from economical point of view of disclosed information, influence of

published information on economic agents' behavior, background of disclosure decision. Results of the study reveals that banks seldom choose to disclose voluntary elements; on the other hand, for mandatory issues, disclosure and transparency meets compliance. Hossain et al. (Hossain et al. 2009:664-667) made a study on corporate disclosure measurement for financial and non-financial companies. Their research is based on some analysis criteria, including: size of the firm given by turnover or sales, profitability (ROE, ROA), complexity of business- industry, activity field, country of origin, and assets. According to the authors, all these variables are supposed to influence information disclosure in financial reporting. In scoring of disclosure index, they used 0 for non disclosed and 1 for disclosed, which is known as the unweighted disclosure approach. Another research on disclosure concerns public listed companies in Malaysia (Lee 2010: 40-42) in which is studied the level of human resource information disclosed in correlation to a series of variables: size, industry and listing. The conceptual and relational SPSS analysis is based on information disclosed in companies' annual reports. Some researchers intended to create models for borrowing costs, in order to facilitate decisions and secure debt (Booth 2006: 70-72). In addition, ROE and ROA ratio indicators are used in empirical research to perform comparative analysis for companies' data in relation to borrowing costs (Bohusova and Nerudova 2009: 35-39). Other studies on capitalization of borrowing costs and their disclosure (Chung et al. 1993: 886-893) investigate firms from oil and gas industry, the analysis revealing two types of companies: successful efforts that expense borrowing costs, and are expensed full costs which capitalize costs.

III. Research methodology

The methodology used involves *Disclosure Index* computation, as well as *SPSS* data processing, analysis and interpretation of results. Data gathering implies a selection of companies and a detailed read through all their consolidated financial statements. Research development is being sustained by certain analysis criteria, such as: *market capitalization, company profile, headquarter, or time period*. The number of firms involved in the study has been elected in accordance to the market capitalization level corresponding to each one of the ten countries implied in the research (*France, Germany, Spain, Italy, Poland, Austria, Romania, Hungary, Ukraine and Bulgaria*) and the period of study comprises a five years' analysis (from year 2005 to 2009). The elements determined for all the 92 participating companies include: *disclosure index, sales, total assets, gearing-solvency and debt rate-, ROE, ROA*. Regarding the information disclosed by firms in their consolidated financial statements, the paper investigates the compliance with Disclosure Checklists of borrowing costs that is disclosing the *accounting policy* adopted with respect to borrowing costs, amount of *capitalized borrowing costs* and *capitalization rate*.

The function that best describes the econometric model can be presented as follows:

$$DI_t = \partial_0 + \partial_1 \text{Sales} + \partial_2 \text{TA} + \partial_3 \text{DebtRatio} + \partial_4 \text{Solvency} + \partial_5 \text{ROA} + \partial_6 \text{ROE} + \partial_7 \text{Country} \quad (1)$$

In the above function, t is the year of study and takes values from 2005 to 2009. Disclosure Index determination involved two stages. First of all, for each one of the three items to be disclosed, in the form of borrowing costs policy adopted by company, amount of capitalised borrowing costs and capitalization rate, were denoted with '1' in case information for that item has been disclosed in the annual report, and '0' for the firm that did not publish the respective information. The second step involved summing up the result for the three elements, and then dividing by three- as this was the maximum probability for disclosure.

$$DI = \frac{\sum(d_i \text{ effectively presented})}{\sum(d_i \text{ all the possible cases})} \quad (2)$$

IV. Interpretation of results

Table no. 1. SPSS- Descriptive statistics: Correlations

(Source: own computations)

Table no. 2. Results

Year	Variables						
	Dependent	Independent	Variable	Alfa	T (sign.)	F (sign.)	Adj,R ²
2005	DI	Sales, Total Assets, Debt Rate, Solvency, ROA, ROE	Sales	5,970	0,167	4,974	0,396
			T.A.	5,353	0,159		
			Debt rate	0,039	0,291		
			Solvency	0,032	0,238		
			ROA	0,109	0,016		
			ROE	-0,0013	0,019		
Year	Variables						
2006	Dependent	Independent	Variable	Alfa	T (sign.)	F (sign.)	Adj,R ²
			Sales	3,422	0,236		
DI		Sales, Total Assets, Debt Rate, Solvency, ROA, ROE	Total Assets	9,253	0,188	4,611	0,373
			Debt rate	-0,0057	0,039		
			Solvency	0,058	0,037		
			ROA	-0,0023	0,411		
			ROE	0,00423	0,481		

	Disclosure Index				
	2005	2006	2007	2008	2009
DI	1,000	1,000	1,000	1,000	1,000
Sales	0,102	0,076	0,073	0,132	0,076
Total Asset	0,105	0,093	0,051	0,091	0,070
Debt ratio	-0,058	-0,185 **	-0,214 **	0,062	0,159 *
Solvency	0,075	0,187 **	0,211 **	-0,073	-0,181 **
ROA	0,224 **	0,024	0,115	0,003	-0,031
ROE	0,216 **	-0,005	-0,027	0,009	-0,011
Romania	-0,545 ***	-0,529 ***	-0,564 ***	-0,450 ***	-0,432 ***
Bulgaria	0,025	0,007	0,011	0,003	-0,034
Hungary	0,255 *	0,305 **	0,229 **	0,170 *	0,147 *
Poland	0,056	0,0015	0,024	0,006	-0,075
Ukraine	0,031	0,008	0,013	0,003	0,130
Spain	0,066	0,017	0,028	0,007	-0,089
France	0,042	0,231 **	0,263 *	0,097	0,079
Italy	-0,175 **	0,127	0,129	-0,114	-0,080
Germany	0,139 *	0,043	0,036	0,060	0,201
Austria	0,052	0,014	0,022	0,139	0,092
Significance	*, for Sig ≤0,10		**, for Sig ≤0,05		***, for Sig ≤0,01

Year	Variables						
	Dependent	Independent	Variable	Alfa	T (sign.)	F (sign.)	Adj.R ²
2007	DI	Sales, Total Assets, Debt Rate, Solvency, ROA, ROE	Sales	3,0988	0,244	4,897	0,391
			Total Assets	-0,017	0,315		
			Debt rate	-0,0085	0,020		
			Solvency	0,060	0,022		
			ROA	-0,0014	0,137		
			ROE	0,0037	0,399		
2008	DI	Sales, Total Assets, Debt Rate, Solvency, ROA, ROE	Sales	3,982	0,105	2,683	0,217
			Total Assets	-3,7	0,195		
2009	DI	Sales, Total Assets, Debt Rate, Solvency, ROA, ROE	Debt rate	0,235	0,278	2,672	0,216
			Solvency	0,331	0,244		
			ROA	0,005	0,490		
			ROE	-0,0005	0,467		

Year	Variables						
	Dependent	Independent	Variable	Alfa	T (sign.)	F (sign.)	Adj.R ²
2009	DI	Sales, Total Assets, Debt Rate, Solvency, ROA, ROE	Sales	1,1826	0,234	2,672	0,216
			Total Assets	-0,861	0,253		
			Debt rate	-0,101	0,065		
			Solvency	-0,088	0,042		
			ROA	-0,443	0,385		
			ROE	0,0949	0,459		

(Source: own computations)

Table no.1 presents the correlation between Disclosure Index and its corresponding variables (Sales, Total Assets, Debt ratio, Solvency, ROA, ROE). In analyzing the evolution of correlation coefficients for the 5 years' period (2005-2009), we consider three significance thresholds, of 10%, 5% and 1%. The results show that according to our estimated econometric model, most of the variables (Sales, Total Assets, ROE and ROA), maintain a strong influence on disclosure for year 2005, as we can observe a high correlation level between the studied elements. In addition, we can observe that in most of the case, Pearson Coefficient

registers values that are above the significance levels (see Table no.1). One of the variables that influences disclosure index with respect to borrowing costs is represented by *sales*. Pearson Coefficient for sales (0,102) shows that the more complex the company is, having a high turnover, the higher the level of published information. This is also valid for the case of *total asset*. Its coefficient of 0,105 demonstrates that as a firm increases its assets, it is also willing to publish a greater amount of information. On the other hand, for both *debt ratio* and *solvency* there is a low correlation level in their relation to disclosure index. For instance, debt rate has a negative

correlation with respect to DI, which means that in some of the cases (though, few, as the value of -0,058 does not indicate a significant influence) when a company's debt ratio increases, disclosure concerning borrowing costs has in contrast a tendency to decrease. Concerning ROA and ROE for year 2005, although they seem to be highly correlated with the indicator showing information published by firms in accordance with IAS 23, the significance level is lower than 0,05 (see Table no.2). For years 2006 and 2007 we can state that again debt ratio and solvency show high correlation, but similar with the previous year, the level of significance does not reach 5% (see Table no.2). The other variables do not register coefficients that should indicate a relevant influence for disclosed information regarding borrowing costs. However, there is the exception of Pearson's coefficient for ROA recorded in 2007 (0,115), that stands for a strong correlation between disclosure index and ROA for the mentioned year. The last period of our analysis (2008-2009) is characterized by some evidence of correlation- sales from 2008 (0,132), as well as debt ratio and solvency, in 2009 although for the last two items the significance level is under 10%, respectively 5% (see Table no.2). Regarding the assumption that the country in which a company has its headquarter and where it has been set up has an influence politics adopted concerning information made public, the findings suggest that Romanian companies have similar behaviors when it comes to publishing information regarding borrowing costs. In addition, the significance level is lower than 1%. Further on, Bulgaria registers a small influence on disclosure index for the entire period of 5 years' analysis, the maximum value being under 0,03. Similar values for Pearson's Coefficients are recorded for Poland and Spain, that present a negative correlation in 2009 (-0,075 and -0,089). Ukraine does not seem to have an important influence on disclosure with respect to borrowing costs,

excepting year 2009 (0,130). For France, there is evidence for high correlation in 2006 and 2007, but the significance level is under 5% and 10%. In case of Italy, it seems that there is both positive and negative strong correlation. For years 2006 and 2007 the recorded values (0,127 and 0,129), imply that this country influences the firms that have headquarters and were set up within its borders, in the matter of information disclosure policy for IAS 23 issues. In 2008, Austria recorded a high degree of influence on its companies with respect to borrowing costs, while in 2009 Germany seems to also have a great impact on the way its firms publish information of IAS 23 appliance. Finally, regarding the relevance of the econometric model, according the SPSS analysis, the dependent variable (disclosure index for borrowing costs information) is explained through the model in a percentage of 39% in 2005 and 2007, 37% for 2006, while in 2008 and 2009 this amount decreases to 21%. In addition, the values for adjusted R^2 stand as evidence for the mentioned facts.

V. Conclusions

This paper is meant to study the consistency of information published by companies in their consolidated financial reports. The research objective relates to the impact of international accounting standard IAS 23 Borrowing Cost demands on companies' accounting policies. Further on, the study involves estimating and establishing an econometric model in which is assumed that disclosure index for information required by IAS 23 depends on certain elements in the form of country of origin, sales, total assets, debt ratio, ROA and ROE. The importance of this research relies in its originality approach, by studying the information disclosure for borrowing costs for a *5 years' period*, starting with 2005, until 2009, and also by considering a large sample of companies being significantly chosen. On the whole, this paper is meant to bring a national and international contribution to the literature of

borrowing costs, as one of the most important accounting fields.

Results show that the model is valid, meaning that there is correlation between information disclosure with respect to IAS 23 and the analyzed variables. According to our estimated econometric model, most of the variables maintain a certain influence on disclosure as we can observe a significant correlation level between the studied elements. Regarding the relevance of the econometric model, according the SPSS analysis, the dependent variable -disclosure index for borrowing costs information- is explained by the model, adjusted R² taking values between 21% and 39%. This research contributes to the development of both accounting field and international accounting literature, by studying borrowing costs disclosed information in relation to certain elements that best characterize the activity of a company. Although an empirical paper, it concentrates also on accounting practices, as it uses real data extracted from annual reports and consolidated financial statements.

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Subsection: Banking

MODELING ROMANIAN EXCHANGE RATE EVOLUTION WITH GARCH, TGARCH, GARCH- IN MEAN MODELS

Trenca Ioan

Babes-Bolyai University, Faculty of Economics and Business Administration

Cociuba Mihail Ioan

Babes-Bolyai University, Faculty of Economics and Business Administration

Abstract: *In this paper we analyze the return of exchange rate in order to test and analyze the best models which are capable of forecasting accurately there evolution. We apply the GARCH family models on the exchange rate return in order to obtain the best models for there volatility. Financial time series often exhibit abnormal characteristics, such as: serial correlation, non-stationarity, heteroskedasticity, asymmetric and are leptokurtic. Due to these characteristics autoregressive models such as autoregressive (AR), moving average (MA) and autoregressive integrated moving-average (ARIMA) are unable to capture the evolution of financial series, to represent the special characteristic of financial a hole new range of models where developed : generalized autoregressive conditional heteroskedasticity (GARCH), which are taking into account the heteroskedasticity of the errors term. The GARCH model allows for lags in the autoregressive term and in the variance term incorporates lags of the previous variance and also for the errors. The GARCH family has expanded in the last years in order to incorporate for asymmetry (Threshold GARCH, TGARCH) and risk (GARCH -in Mean).*

We analyze the evolution of exchange rate for: Euro/RON, dollar/RON, yen/RON, British pound/RON, Swiss franc/RON for a period of five years from 2005 till 2011, we observe that in the analyzed period there are 2 sub-periods: 2005-2007 in which the RON appreciated constantly, and 2007-2011 in which the trend is depreciation for RON in respect to all the five currencies and the volatility was sensible higher than in the previous period. We obtain the returns on exchange rate by using the following transformation $r = \log(\text{curs}_t) - \log(\text{curs}_{t-1})$; the five analyzed series display an leptokurtic and asymmetric behavioral. Using the GARCH, TGARCH and GARCH-in Mean models, we explicit the evolution of volatility throw this period, choosing the best model using the following : minimizing the value of the sum of squared errors, Akaike and Bayesian Information Criterion.

Keywords: *exchange rate, GARCH, TGARCH, AIC, BIC.*

JEL Classification: *G01, G21*

1. Introduction

The evolution of Romanian exchange rate represent an important factor for a hole range of economic actors: banks, governmental agencies, companies and households, so the fluctuations of exchange rate and the ability to forecast her evolution is very important. For banks which must comply to the recommendation of the Basel Committee and which are ,usually, having open position on different currencies it is vital that they can understand and prognoses the future

exchanges rates in order to minimize the risk of losses; for governmental agencies (especially the Romanian IRS) the evolution of Euro/Ron is important due to the fact that some of the taxes are expressed in Euro; exchange rate fluctuation can have a great on companies if there debts is in foreign currency or if the export/import; for households which in Romania are in debt especially in foreign currency the devaluation of Ron can lead to bankruptcy. Over 60 percent of loans are denominated in foreign

currency in Romania which makes our economy very sensitive to the fluctuations in exchange rates (especially Euro, dollar, yen, swiss franc). All of these reason makes important the study of exchange rates evolution.

The evaluation or devaluation of currency is not a bad think per se, what raises difficulties is their volatility because in general financial time series, including exchange rate, often exhibit abnormal characteristics, such as: serial correlation, non-stationarity, heteroskedasticity, asymmetric and are leptokurtic.

2. Literature review

The theory of purchasing power parity (PPP) was the first which managed to explain the fluctuations in exchange rate values in real terms , but there are limits of this theory [Guglielmo&Luis,2010] because it cannot explain the volatility, the main critics brought to this theory being given by the reduced relevance of the obtained methods and the necessity to use large amount of data series. If analyzing the exchange rate evolution from a nominal point there are problems for the researchers, for eg. the structure of the data series on the financial markets (because these are generally leptokurtic, the moment of the order 3 of the series is much bigger than in the case of normal distribution), leading to an increase of the probability of the appearance of extreme phenomena, also if the series are stationary or there is any evidence for structural breaks.

The best models used for modeling the volatility are the ARCH models [Engel,

1982] and then the GARCH generalization [Bollerslev, 1986] which lead to the appearance of some instruments advanced enough to model the financial series. The appearance of the GARCH models lead to a better understanding and a modeling of the evolution of the financial series, these models developing both in univariate and multivariate models [Bauwens, 2006]. The evolution of the Romanian exchange rate has been analyzed being used the GARCH modeling by Codirlasu [2001] on the series ROL/EURO and ROL/DOLAR for the period 2000-2001, being remarked the fact that the series follow an asymmetric ARCH process. Using series available during the period 1999-2003, Necula [2008] applies the GARCH and the Copula-GARCH modeling, concluding that the dynamic models of the type Copula-GARCH bring more information and stability concerning the obtained results.

3. Data used and methodology

The analyzed series are 5 currencies: Euro, dollar, British pound , Japanese yen and Swiss franc, the analyzed period is between January 3, 2005 and April 29, 2011, daily series; the date are obtained from Romanian National Bank official site www.bnro.ro and the econometrics software packaged used is GRETL, in order to obtain returns from the daily series we apply the following transformation:

$$r = \log(\text{curs}_t) - \log(\text{curs}_{t-1}) .$$

The ARCH models developed by Engel [1982] have the following equations:

$$y_t = B_0 + e_t \tag{1}$$

$$e_t | I_{t-1} \sim N(0, h_t) \tag{2}$$

$$h_t = \hat{\alpha}_0 + \hat{\alpha}_1 * e_{t-1}^2, \hat{\alpha}_0 > 0, \quad 0 \leq \hat{\alpha}_1 < 1 \tag{3}$$

The equation(1) expresses the series evolution, a following a normal distribution law of conditional equations (2) and (3). Equations 2 and 3 express the ARCH type models, autoregressive models with different time variance, residuals follow a normal law of 0 mean and h_t variance. The value of $\hat{\alpha}_0$ and $\hat{\alpha}_1$ must be positive, and $\hat{\alpha}_1$ has a value between [0,1] in order to

avoid an explosive processes, also errors(residuals) follow a normal distribution law.

ARCH models have been developed later in the GARCH (Generalized autoregressive conditional heteroskedasticity) by Bollerslev [1986], which bring the use of lags as an innovation in equation variance, equations in the GARCH (1,1) case are:

$$y_t = \beta_0 + e_t \quad (4)$$

$$e_t | I_{t-1} \sim N(0, h_t) \quad (5)$$

$$h_t = \hat{\alpha}_0 + \hat{\alpha}_1 * e_{t-1}^2 + \beta_1 * h_{t-1}, \quad \hat{\alpha}_0 > 0, \quad 0 \leq \hat{\alpha}_1 < 1 \quad (6)$$

It have been observed that on the financial markets the assets prices are influenced by the news (also called innovation) , so that a bad news generates more volatility than a good news. A GARCH model which treats

differently the bad-good news was proposed by Zakoian [1993] – Threshold GARCH. It is an asymmetric model in which the conditional volatility is:

$$h_t = \hat{\alpha}_0 + \hat{\alpha}_1 e_{t-1}^2 + \gamma * d_{t-1} * e_{t-1}^2 + \beta_1 * h_{t-1} \quad (7)$$

where: $d_t = 1$ if $e_t < 0$ or $d_t = 0$ if $e_t > 0$.

Also in order to reflect the relation between risk and return another models where proposed in order to incorporate this

characteristics [Engle,1987], GARCH in mean model have the following characteristic:

$$y_t = \beta_0 + e_t + \theta * h_t \quad (8)$$

$$e_t | I_{t-1} \sim N(0, h_t) \quad (9)$$

$$h_t = \hat{\alpha}_0 + \hat{\alpha}_1 * e_{t-1}^2 + \beta_1 * h_{t-1}, \quad \hat{\alpha}_0 > 0, \quad 0 \leq \hat{\alpha}_1 < 1 \quad (10)$$

In this model as the volatility rises the return are rising too, this models are useful in order to capture the risk of the assets.

4. Exchange rate models: GARCH, TGARCH and GARCH in Mean

Using the return

$$r = \log(\text{curs}_t) - \log(\text{curs}_{t-1}),$$

we obtain the following evolution of the series:

	R_DOLAR	R_EURO	R_FRANC	R_LIRA	R_YEN
Mean	-0.003560	0.002223	0.013383	-0.012068	0.010834
Median	-0.048804	-0.017661	-0.020991	-0.038889	-0.091837
Maximum	4.434815	3.385650	5.223699	4.018345	10.80639
Minimum	-4.968370	-5.106356	-5.027989	-4.838047	-7.547544
Std. Dev.	0.874067	0.487860	0.702979	0.746555	1.133958
Skewness	0.277802	0.050525	0.290114	0.072925	0.678837
Kurtosis	6.729989	16.06188	9.472018	7.815664	11.90174
Jarque-Bera	955.2118	11460.17	2836.024	1559.066	5446.158
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	-5.739149	3.582965	21.57408	-19.45334	17.46505
Sum Sq. Dev.	1230.792	383.4293	796.1225	897.8817	2071.521
Observations	1612	1612	1612	1612	1612

The return of the series are different from zero for all the return, the highest return is obtain for the Swiss franc 1.33% and the lowest for the British pound – 1.20%; from the 5 currency two have negative return: the British pound -1.20% and the American dollar -0.3%. The standard deviation which measures the risk associated with these currency are the highest for Yen 1.13 and the lowest for EURO 0.48, also all the currency

are asymmetric and leptokurtic. All the series where tested for stationarity using the ADF test and also for the ARCH effect: the series are stationary and the ARCH effect is present. The evolution of the return (Fig.1) are having the characteristic of an GARCH model with periods of high volatility followed by periods of low volatility, also we can observe that the highest volatility is in 2008-2009 when the financial crisis hit the markets.

Fig.1. Evolution of return 2005 -2011

We explicit the TARCh model for dollar as being:

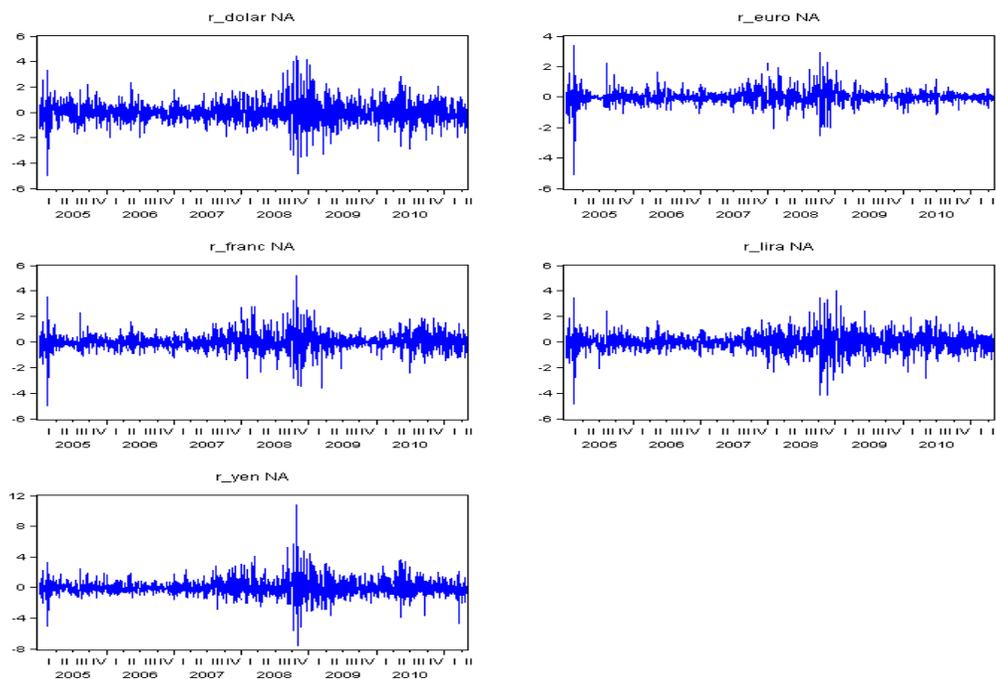


Table 1. TARCh Model dollar

Dependent Variable: R_DOLAR

Sample (adjusted): 1/07/2005 4/29/2011

Included observations: 1609 after adjustments

Variable	Coefficient	Std. Error	z-Statistic	Prob.
R_DOLAR(-1)	0.048747	0.025227	1.932310	0.0533
R_DOLAR(-2)	-0.029834	0.027110	-1.100462	0.2711
R_DOLAR(-3)	-0.046187	0.025247	-1.829397	0.0673
Variance Equation				
C	0.009057	0.002396	3.780163	0.0002
RESID(-1)^2	0.071693	0.009958	7.199375	0.0000
RESID(-1)^2*(RESID(-1)<0)	-0.026388	0.013414	-1.967209	0.0492
GARCH(-1)	0.928206	0.008137	114.0695	0.0000
R-squared	0.011721	Mean dependent var		-0.004295
Adjusted R-squared	0.010490	S.D. dependent var		0.874680
S.E. of regression	0.870080	Akaike info criterion		2.352069
Sum squared resid	1215.805	Schwarz criterion		2.375490
Log likelihood	-1885.240	Durbin-Watson stat		1.918807

We observe that the coefficient of the equation are representative at the population level with a 95% confidence except for the second lag of the return. The normality of the estimation is analyzed through the Durbin-

Watson test which is under the critical level of 2.

Using the information criterion: Akaike, Schwarz we have selected this model for being the most performant from the TGARCH family models.

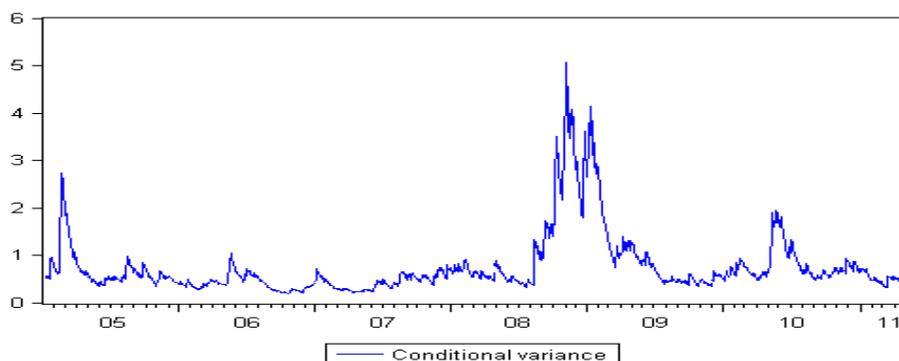
Table 2. GARCH in Mean for dollar

Dependent Variable: R_DOLAR
 Date: 05/14/11 Time: 15:35
 Sample (adjusted): 1/07/2005 4/29/2011
 GARCH = C(5) + C(6)*RESID(-1)^2 + C(7)*GARCH(-1)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
LOG(GARCH)	0.043134	0.020789	2.074855	0.0380
R_DOLAR(-1)	0.045477	0.025094	1.812215	0.0700
R_DOLAR(-2)	-0.033026	0.027023	-1.222125	0.2217
R_DOLAR(-3)	-0.053874	0.025031	-2.152348	0.0314
Variance Equation				
C	0.008319	0.002410	3.452184	0.0006
RESID(-1)^2	0.061833	0.007541	8.199630	0.0000
GARCH(-1)	0.926816	0.008588	107.9201	0.0000
R-squared	0.014756	Mean dependent var		-0.004295
Adjusted R-squared	0.012914	S.D. dependent var		0.874680
S.E. of regression	0.869013	Akaike info criterion		2.351012
Sum squared resid	1212.071	Schwarz criterion		2.374433
Log likelihood	-1884.389	Durbin-Watson stat		1.918963

For the GARCH in Mean model we used for quantifying the risk in the mean equations after testing the model with a variance that the best way to integrate risk is using the logarithm of variance.

Fig.2 The evolution of conditional variance for dollar in a TGARCH model



5. Conclusion

The purpose of using TGARCH and GARCH in Mean models is to offer a better understanding of the volatility which is found on financial markets, because financial assets have some abnormal characteristics, such as: serial correlation, non-stationarity, heteroskedasticity, asymmetric and are leptokurtic it is important to take into account them. GARCH asymmetric models, like TGARCH and GARCH in Mean, are offering the possibility for better forecasting on these assets. In this models we postulated that the error term is following a normal distribution : $\epsilon_t | I_{t-1} \sim N(0, h_t)$ but there are others possibilities: student, Generalized Error Distribution, student skewed and skewed Generalized Error Distribution. Another factor which we need to take into the consideration is the possibility of structural breaks in the series.

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MONEY: FROM STATISTICAL DEFINITION TO MONETARY POLICY FOR ADOPTING EURO.

Zăpodeanu Daniela

University of Oradea Faculty of Economics

Abstract: *The evolution of monetary aggregates is closely related to the economic cycle, especially the evolution of GDP. The study aims to analyse the primary monetary aggregates (M1), the secondary (M2) and the tertiary (M3) in three Central and Eastern European countries: Romania, Bulgaria and Poland. The countries were chosen as follows: Romania and Bulgaria on the basis of the economic and geographical closeness and Poland as a benchmark for the first group. The data used are money supply, monetary aggregates: primary, secondary and tertiary, in Romania, Poland and Bulgaria, for the period January 2004 - March 2011, the monthly series are obtained from central bank websites, Poland's Central Bank and Bulgarian National Statistical Institute. The evolution of monetary aggregates of the three countries was compared with the Euro area and it was noticed a high degree of similarity between countries more developed economically as compared to less developed countries. From the viewpoint of optimum currency areas, it is necessary that the countries that adopt the Euro would respond symmetrically to external shocks and also have similar economic behaviour. Our study aims, in this respect, to analyse the components and the characteristics of the monetary aggregates, as well as the trends existing within them. The analysis of the correlation between monetary aggregates will show how the way in which the monetary mass and aggregates behave and which the sense of connection established between these countries is. We find that Romania and Bulgaria have a similar comportment, the correlation between these being the highest, we observe some differences between Romania and Bulgaria versus Poland.*

Keywords: *Monetary Aggregate, Gross Domestic Product, Monetary policy, Euro Zone*

JEL Classification: *E42, E52*

1. Introductory notions

The evolution of monetary aggregates is closely related to the economic cycle, especially the evolution of GDP [Fagan, Henry, 1998]. The study aims to analyse the primary monetary aggregates (M1), the secondary (M2) and the tertiary (M3) in three Central and Eastern European countries: Romania, Bulgaria and Poland. The countries were chosen as follows: Romania and Bulgaria on the basis of the economic and geographical closeness, and Poland as a benchmark. The study aims to observe the similarities concerning money supply that exist between these countries and the importance of monetary aggregates as an instrument of monetary policy in these countries. Following the EU accession, these countries will adopt the euro, the forecasts

being: Romania - 2015, Bulgaria - 2013, Poland 2012 (2013); The theory of optimal currency areas shows how important is the economic synchronization for countries with a single currency.

Within the Economic Monetary Union, the definition of monetary aggregates is stated, since 2007, according to the methodology of the European Central Bank (NBR Monthly Report, 2009):

1. Narrow money supply (M1) includes currency in circulation (banknotes and coins) and deposits readily convertible into cash or used for payment by bank transfer called overnight deposits.

2. Intermediate money supply (M2) includes narrow money (M1) plus time deposits with maturity of up to two years and adding deposits redeemable at a period of notice of

up to 3 months. The definition of M2 mirrors the interest in analyzing and monitoring a monetary aggregate which, apart from cash, includes deposits with a high degree of liquidity.

3. Broad money supply (M3) comprises intermediate money (M2), and marketable instruments issued by the monetary financial institutions sector; money market instruments, especially money market fund shares/units and repurchase agreements are included in the aggregate (a high degree of liquidity makes these instruments close substitutes for deposits).

The way of defining monetary aggregates in Romania and Bulgaria before the harmonization with the European Central Bank requirements was:

- M_1 - Narrow money supply, which comprises: currency outside the banking system, sight deposits (until December 1991 time deposits of economic agents as well);
- Quasi-money – which, together with M_1 , form M_2 (broad money) and which comprises: household savings, term or restricted deposits in Lei, foreign currency deposits of residents.

2. Literature Review

The monetary union (or currency union) - means adopting the same currency in neighbouring countries or that of the most important commercial partner; we witness the dollarization in Latin America (Ecuador, Peru) and the euro area. For Romania an important significance has been given by the "euro zone"; now that our country is a EU member, it should focus on continuing the process of integration into European economic and monetary union and the next step is to adopt the euro. Establishing the euro area was a long process that had as its starting point the Delors report of 1989, which proposed a realization of monetary union in three steps. The benefits of achieving a monetary union are related to the existence of an optimal currency areas, optimum currency area is defined as a geographical region in

which the member states must use fixed exchange rates or a single currency, while there are also criteria that a country must satisfy to be part of an optimal currency area (Mundell, 1961):

- high degree of labour mobility;
- diversified production;
- degree of openness of the economy;
- symmetry of external shocks.

From this point of view, the European Union is not entirely an optimum currency area, there are differences in labour mobility (in particular because of language barriers). However, joining an economic union and then a monetary union, with the implementation of EU acquis and the liberalization of the movement of labour force showed that the level of integration in the euro area is increasing (Bîtcă et al, 2007), and also that the euro zone economies become integrated as a result of monetary union [Baldwin, 2006].

A preliminary stage of adopting the euro is compliance with the provision of the Maastricht Treaty (1992):

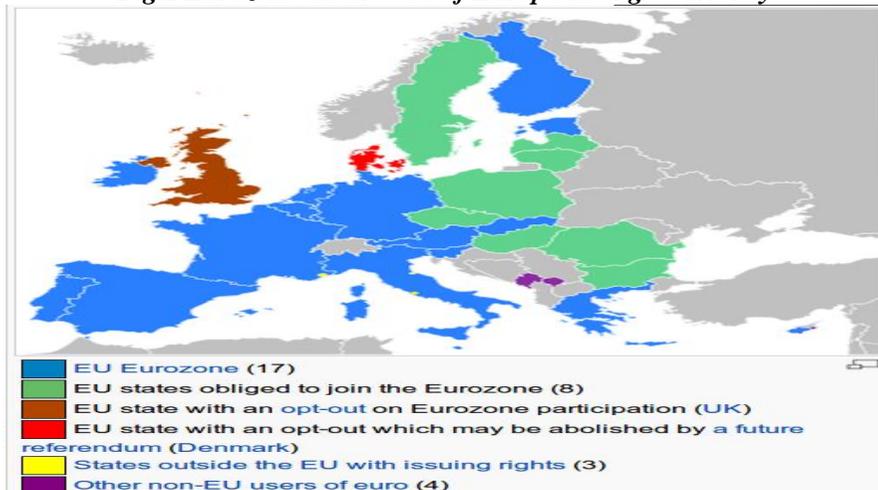
- the average inflation rate should not exceed with more than 1.5 percentage points the average of the most performant three members
- the long-term interest rates should not exceed with more than two percentage points the average of the top performing members
- consolidated budget deficit should be less than 3% of GDP
- public debt should be below 60% of GDP
- exchange rate fluctuations against the euro should fall within a corridor of + / - 15% of the average level.

Bulgaria: in 1997, as a result of excessive borrowing, Bulgaria became insolvent, the establishment of Monetary Council was decided in July 1997, the exchange rate level was fixed at 1000 leva for a German mark. The establishment of the Monetary Council has been beneficial in terms of controlling inflation, thus, from the peak of 1044% in

1997, the inflation was reduced to 18.7% in 1998, 2.6% in 1999, 10.3% in 2000, 7.4% in 2001, 5.8% in 2002 and in the EU pre-accession period (2003-2007) it fluctuated between a minimum of 2.3% and a maximum

of 7.3%. Getting over the critical period, which was caused by entering into insolvency in 2000s, by structural reforms and by EU accession in 2007, made Bulgaria to fix its target of joining the euro zone as 2012.

Fig.1 Eurozone and the use of European single currency



(Source: <http://en.wikipedia.org/wiki/Euro>)

Poland: After 2000, the Polish Central Bank will focus on inflation targeting, and is due to adopt the euro by 2014, which supposes compliance with ERM II requirements two years before acceding to the euro area. Poland is a success story, managing the performance to continue its growth even during the crisis.
 Romania: After accession to the EU, Romania must abide by the obligations of EU membership and will have to join the euro zone, the time horizon forecast is after 2015, with a period of at least two years preceding that, during which it will comply with the regulations of exchange mechanism of ERM II, which involves a controlled national currency fluctuations against the euro within a deviation band of +/- 15%. Romania meets only one of the provisions of the Maastricht Treaty, namely the public debt and, on the edge, the exchange rate fluctuation. Through the reforms and agreements with International bodies, it is aimed at the reduction of the budget deficit below 3%, while the central

bank aims to control inflation, although this year's inflation target will be exceeded.

3. Data used and methodology

The data used are money supply, monetary aggregates: primary, secondary and tertiary, in Romania, Poland and Bulgaria, for the period January 2004 - March 2011, the monthly series are obtained from central bank websites, Poland's Central Bank and Bulgarian National Statistical Institute.

To analyse the evolution of money supply and monetary aggregates in the three countries, we shall calculate the correlation that exists between the evolution of M1, M2 and M3, so the correlation is defined as:

$$\rho = \text{corr}(x, y) = \text{cov}(x, y) / \sigma_x \sigma_y = E [(X-X_m)(Y-Y_M)] / \sigma_x \sigma_y,$$

- where X_M, Y_M represent the mean of X, respectively Y,
 - and σ_x, σ_y represent the mean squared deviation of X, respectively Y.

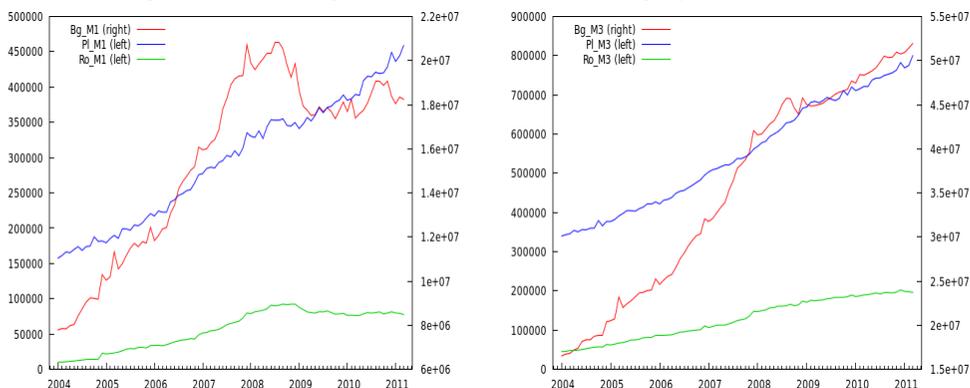
The analysis of the correlation between monetary aggregates will show how the way in which the monetary mass and aggregates behave and which the sense of connection established between these countries is.

4. The analysis of monetary aggregates (M1, M2, M3) in Romania, Bulgaria, Poland

For these countries, the period analysed is related to two major events:
 - European Union adhesion.
 - economic crisis.

Fig.2 shows the evolution of money supply (M3) and primary aggregate (M1); the money supply in the period under analysis has a growth tendency, consistent with the economic growth witnessed by these countries in the pre-crisis period, except in the case of Bulgaria where from mid-2008 to 2009 the money supply (M3) shrinks due to the decrease in GDP.

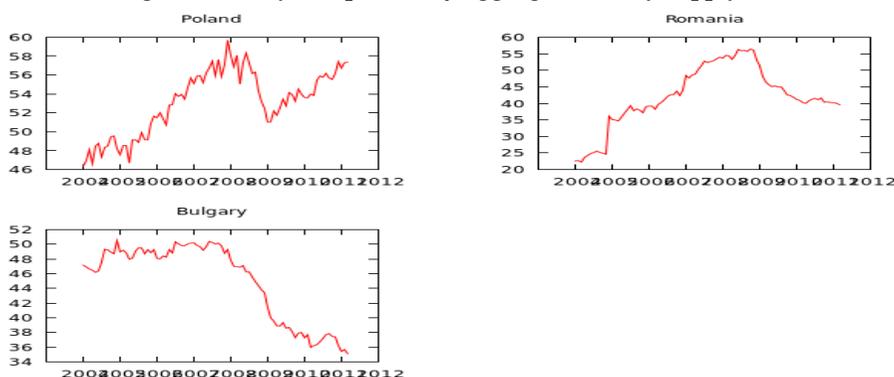
Fig. 2. Evolution of M1, M3 in Romania, Bulgaria, Poland 2004-2011



The primary aggregate (M1) has a much more volatile evolution, this being also due to the fact that the assets constituting the aggregate are of the most liquid type, and thus, particularly sensitive to changes in economic climate; with Romania and Bulgaria, M1 decreases, during 2008 for Bulgaria and the at beginning of 2009 for Romania, while Poland is the only country in which M1 growth

continues. The evolution of money supply, being closely related to GDP trend, the conclusions drawn show that in both Romania and Bulgaria the money supply growth rate has slowed down due to the downturn. However, the fact the trend is nevertheless positive raises questions about monetary policies in both countries because the excess of money can turn into inflation.

Fig. 3. Primary component of aggregate money supply M1 in total



In terms of the component of the money supply, it is seen in Fig.3 that, for both Romania and Bulgaria, the primary aggregate (most liquid) is below 45% for Romania and under 38% for Bulgaria, much less than in the pre-crisis period (over 50% for both countries) which shows that the economic crisis has manifested itself at the level of non-bank agents, as well, by lowering the amount of cash and the value of sight accounts. While with Romania and Bulgaria M1 is still decreasing, in Poland, after a period of decline of a similar magnitude to that in the other countries analysed, it recovered to levels comparable to those in the pre-crisis period.

The correlation between the monetary mass and the aggregates in Romania, Poland and Bulgaria

To analyse the evolution of money supply and monetary aggregates in the three countries, we calculate the correlation that exists between the evolution of M1, M2 and M3; so the correlation is defined as:

- $\rho = \text{corr}(x, y) = \text{cov}(x, y) / \sigma_x \sigma_y = E [(X - X_m)(Y - Y_m)] / \sigma_x \sigma_y$,
- where X_m, Y_m represent the mean of X, respectively Y,
- and σ_x, σ_y represent the mean squared deviation of X, respectively Y.

Table 1. Correlation matrix of Monetary aggregates

M1	PI_M1	Ro_M1	M1
	0.88	0.97	Bg_M1
	1	0.93	PI_M1
M2	PI_M2	Ro_M2	M2
	0.98	0.98	Bg_M2
	1	0.96	PI_M2
M3	PI_M3	Ro_M3	M3
	0.98	0.99	Bg_M3
	1	0.99	PI_M3

Based on monetary value and monetary aggregates M1 and M2 between January 2004 and March 2011, their correlation matrix was calculated. Statistically, the correlation of the results of the secondary aggregate (M2) and the tertiary one (M3) shows a close link between the developments in the case of Romania, Bulgaria and Poland. With the secondary aggregate, the highest correlation is between Romania and Bulgaria or, respectively, Romania and Poland, this showing that the evolution of money supply in our country, on one hand, presents the features of an underdeveloped economy (such as Bulgaria) and, on the other hand, is similar to Poland - a country with a large population. The most noticeable differences are found with the primary aggregate, the highest

correlation is observed for Romania and Bulgaria which shows that these countries have been equally affected by the economic crisis and the behaviour of non-bank agents in these countries was similar, namely a decrease in cash holdings and short-term deposits. The lowest level of correlation is remarked between Bulgaria and Poland which is due to the fact that after the first effects of the economic crisis in Poland, the primary aggregate returned to levels comparable to the pre-crisis period, while in the case of Bulgaria the decline of this aggregate continues.

Conclusions

Explaining money through the statistical definition of money aggregates is, obviously, more than presenting the static situation of monetary aggregates because the level of them is an important objective of the monetary policy, the main criteria which are followed in determining the main monetary aggregates are: the efficacy of the aggregates to be set as an intermediate target for the monetary policy, the controllability that can be exercised by the central bank authority on its growth, the possibility to allow the monetary authority to react quickly entitles us to say that pursuit of monetary aggregates is required for fulfilling the criteria for euro adoption.

The tertiary aggregates are usually more difficult to calculate and also are to narrow to supervise by the central bank so in practice usually its used the secondary aggregate targeting

The biggest differences are found within the primary aggregate, the highest correlation is observed between Romania and Bulgaria; this shows that these countries have been equally affected by the economic crisis and the behaviour of non-bank agents in these countries was similar, namely a decrease in cash holdings and short-term deposits. The lowest level of correlation is remarked

between Bulgaria and Poland which is due to the fact that after the first effects of the economic crisis in Poland, the primary aggregate returned to levels comparable to the pre-crisis period, while in the case of Bulgaria the decline of this aggregate continues.

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Section Management and Marketing
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TOOLS USED IN DECISION MAKING

Demian Horia

Str. Universitatii nr 1, Faculty of Economics, University of Oradea, Romania

Bernabeu Elena Perez

Universitat Politecnica de Valencia, Spain

Abrudan Maria Madela

Str. Universitatii nr 1, Faculty of Economics, University of Oradea, Romania

Abstract: *Decision making is one of the important tasks of every manager. The process of taking decisions has to be based on knowledge. For optimizing this process some software solutions has been created. In this article we tried to summarize some of the features which exists in some software applications.*

Keywords: *decision making, risk solver*

Introduction

Knowledge is the main source of competitive advantage in the knowledge economy and innovation in organizations involved in the services sector.[1] It's really about the transformation of information into useful data management process. We must keep in mind, however, that the speed with which information circulates, accessibility, search and how their storage are critical factors to be taken into account in streamlining decision-making.

Taking into account the likelihood of achieving results, several models are developed to optimize decisions, starting from the classification of decisions: decisions in conditions of certainty, risk and uncertainty. The elements that distinguish these types of decisions is very important for all - managers and software developers.

While the development of computer applications has raised no problems using established models in case of economic consequences known with certainty - ELECTRE, for example - the real challenge for software developers is to optimize the decisions of category risk and uncertainty.

In the service sector, as in any other field of economics, all computer application are based on the distinction between definitions of risk and uncertainty:

-risk is present when future events occur with measurable probability
-uncertainty is present when the likelihood of future events is indefinite or incalculable (Frank H. Knight, 1921)

Between different algorithms used inside the software "Monte Carlo has become a standard tool of risk management" [PRO02] According to Michele Gambera, the accuracy of the results is limited by the number of simulated histories. The process of simulation will be longer when we have more data. So, an important issue will be how fast a computer program can do all the calculations. New technologies which were developed will improve the speed of the calculations. Cloud computing is one of this technology. If we are taking into consideration cloud computing, we have to be aware that the algorithm has to be done in parallel and also if there are a mechanism of sending and receiving subsets of data between these processes. Monte Carlo algorithm is one which can be done in parallel computing.

In Monte Carlo simulation an important fact is the distribution which we used for our model. There is a lot of distribution which can be used like normal distribution, uniform distribution, triangular distribution and so on.

According to an article of S. Savage, S. Scholtes, and D. Zweidler “simulations without acceptable input distributions are like light bulbs without electricity”, and they observe very well that “Only a few people within an organization have the expertise to estimate probability distributions, and even fewer have the managerial authority to get their estimates accepted on an enterprise-wide basis”. One of their ideas was to manage probability distributions centrally and to replace the classical probability distributions with stochastic libraries a pre-generated random trials that approximate” stochastic inputs or can be the results of simulation and optimization models.

ProbabilityManagement.org has presented the DIST™ Distribution String which brings to Monte Carlo simulation, a data structure that contains thousands of Monte Carlo trials. These trials are compressed through XML, so that structure can be store in the single cell of a spreadsheet or in a field of a data base. The main advantages of DIST is that it can be generated by experts, to represent virtually any type of probability distribution, and then

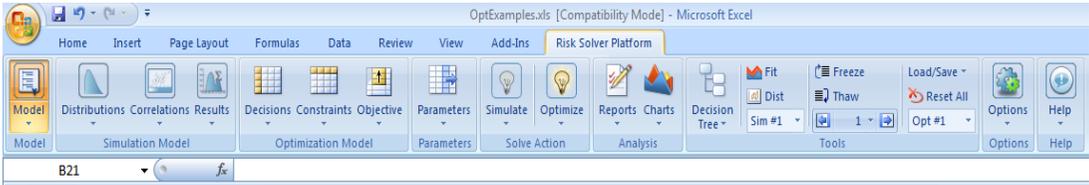
it can be distributed to others in a standardized format.

Other important concept is to use interactive simulation in your model.

Risk Solver Platform is developed by FrontlineSystems and is fully integrated with Microsoft Excel. This software can be used for linear and non-linear model, for conventional optimization, for decision tree model, for risk analysis and Monte Carlo simulation.

“This package was also the first, and as of this date, the most powerful interactive Monte Carlo simulation package for Microsoft Excel. For simple simulations involving a few variables, it can perform 100,000 trials essentially instantly, as the user changes parameters in the model.” [http://probabilitymanagement.org/Software.htm]

Immediate after installation the menu of Excel will be improved with a ribbon with specific option for optimization and simulation, like it can be seen in the following figure.



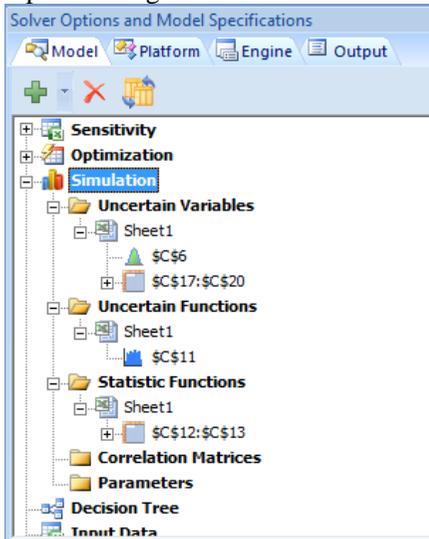
Also a Model Pane which consists of four tabs will be displayed in the right part of the screen. Model tab is used for seeing the description for the current model which can be one of Optimization, Simulation or Decision tree. Platform tab is used for defining parameters for Optimization Model, parameters for Simulation Model or parameters for decision Tree Model.

Engine tab is used for specifying engine which will be used in solving the problem. We can select from Standard GRG Nonlinear Engine, Standard LP/Quadratic Engine,

Standard Evolutionary Engine, Standard Interval Global Engine, Standard SOCP Barrier Engine, Risk Solver Engine, or we can let it choose automatically which engine to use in solving the problem. Which engine should we use? Their recommendation is to try them all, and use the one that performs best on your model.[RISK01]

For every of these engine we can define some parameters which will be used, like Monte Carlo number of trials, the algorithm used for random number generations, number of iterations, Integer tolerance, Multi Start and

so on. Integer tolerance is used to stop finding a solution in Branch and Bound algorithm, when the relative difference between the best found solution and the best possible solution is less than this value. If this value is set to zero, the algorithm will be stopped with the true optimal integer solution.



When Multistart option is set to true, methods for finding global solution to the problem will be used.

Output tab is used for displaying the results. Nonlinear problems are more difficult to solve than linear problems. In risk solver platform an important advantage is that of

using  (Analyze without solving) button, which will help us in finding the model. If the nonlinear problem is convex, the global optimal solution will be found.

For using this platform we have to be familiar with Microsoft Excel. The platform came with a lot of useful examples for optimization, simulation and simulation & optimization like Simple Business Plan Forecast Model with Uncertainty, an example illustrating modeling an investment fund's growth given uncertain return rates, an example illustrating modeling multi-period

Inventory problems with uncertain demand, an example illustrating the use of Monte-Carlo Simulation to estimate workforce levels required to meet demand, an example illustrating use of Monte-Carlo Simulation in Airline Yield Management; this example also shows the use of a parameterized simulation model to arrive at good decision policies under uncertainty.

It is very important to mention that a useful package named Risk Solver Engine can be used to develop and deploy application to users.

Risk Solver Platform came with a set of functions which can be used for defining optimization models and Monte Carlo simulation models. According to their documentation most of these functions will be used for Monte Carlo simulation models, or for the uncertain elements of stochastic optimization models.

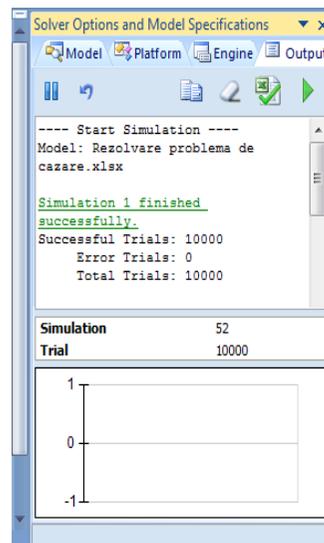
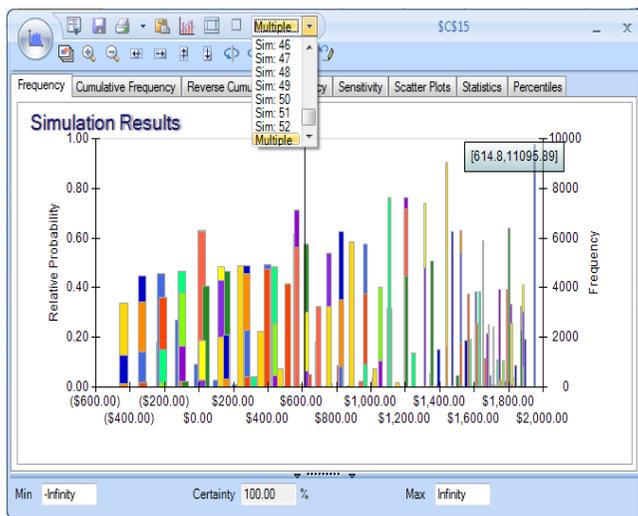
We have tried to solve a problem of making reservation to a hotel, in the following conditions. Our hotels have 50 rooms, and the price for a room is 39 EURO. In case a client will cancel the reservation, hotel will not refund the price of the first night of accommodation. In case the tourist will show up and no room will be available a compensation of 25% of the price of a room will be paid by the hotel for tourist accommodation in another hotel.

In less than 5 minutes we can create a model of our problem based on the model which is defined in YieldManagementModel2.XLS file. The distribution of cancelation will be a LogNormal distribution of 5% with a standard deviation of 2%. For this we used PSILogNormal function which generates random number of tourist cancelations. We prefer this model because we can see exactly the evolution of simulation for each particular case, and we can make an idea about the algorithm.

3	Price/room	39						
4	Number of rooms in Hotel	50						
5	Number of cancellation	6						
6		5.945649429						
7								
8	Refund of cancellation	0%						
9	Overbooking Compensation	125%						
10								
11	Number of bookings	101						
12	Number of tourist which arrive	95						
13	Number of Overbooked rooms	45						
14								
15	Total Revenue	(\$243.75)						
16								
17								
18	Simulation Number	1	2	3	4	5	6	7
19		50	51	52	53	54	55	56
20		1832.9727	1870.027	1906.106	1917.375	1896.368	1859.364	1816.364

For number of booking we used =PsiSimParam(C19:BB19) which tell to Solver engine that a different simulation will be made for each value of a cell from the domain C19 to BB19. We also used =PsiMean(\$C\$15,C18) do define the expected revenue in each case of simulations. We also set the number of trials per simulation to 10000 for more accuracy. In less than 3 seconds on our computer we

obtain the results to our problems which indicate us to use 53 rooms in the process of making reservations. Another very useful thing is the displaying of the results which can be viewed and analyzed in a different window like the above on. We can combine multiple simulations in our analyzing or we can see the results for only one.

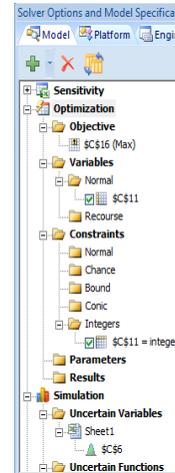


To solve this problem solver was simulate all 50 cases with 10000 of situations in 0.25 seconds.

The same problem can be solved if we define a simulation & optimization model. For this model we used only PSILogNormal and

PSIMean functions as it can be seen in the following figure.

3	Price/room	39	
4	Number of rooms in Hotel	50	
5	Number of cancelation	2	CEILING(C6,1)
6		1.940336761	PsiLogNormal(0.05*C11,0.02*C11)
7			
8	Refund of cancelation	0%	
9	Overbooking Compensation	125%	
10			
11	Number of bookings	40	
12	Number of turist which arrive	38	
13	Number of Overbooked room	0	
14			
15	Total Revenue	\$1,482.00	MIN(50,C12)*C3-C5*C3*C8-C13*C9*C3
16		1917.39	PsiMean(C15)
17			
18			
19			
20			



We define an maximum objective of C16, we put a condition that number of booking has to be an integer (we cannot book 5.34 rooms), and we also set that C11 is a variable, like it can be seen in the model above in the optimization section. Another parameters of the engine is 1 simulation and 1000 of trials

per simulation. We start with  button. Solver has found a solution in our case in 6.8 seconds after informing us that our model contains uncertainty, and Risk solver

platform will analyze our formula to determine the best methods for solving it. Also it determine that our models is non linear in decision variables and cannot be solved by stochastic programming or robust optimization methods. At the end inform us that Branch & Bound algorithm has found the best of the locally optimal solutions. The results are 53 bookings like in the preceding solutions.

3	Price/room	39	
4	Number of rooms in Hotel	50	
5	Number of cancelation	2	CEILING(C6,1)
6		1.301687502	PsiLogNormal(0.05*C11,0.02*C11)
7			
8	Refund of cancelation	0%	
9	Overbooking Compensation	125%	
10			
11	Number of bookings	53	
12	Number of turist which arrive	51	
13	Number of Overbooked room	1	
14			
15	Total Revenue	\$1,901.25	MIN(50,C12)*C3-C5*C3*C8-C13*C9*C3
16		1917.43	PsiMean(C15)
17			
18			
19			
20			

```

---- Start Solve ----
Using: Full Reparse.
Parsing started...
Diagnosis started...
Uncertain input cells detected.
Attempting Stochastic
Transformations...
Stochastic transformation did not
succeed.
Reverting to Simulation/Optimization.
Using: Full Reparse.
Parsing started...
Diagnosis started...
Model diagnosed as "SIM NonCvx".
User engine selection: Standard GRG
Nonlinear
Model: [Resolvare problema de cazare
2.xlsx]Sheet1
Using: Psi Interpreter
Solve time: 6.43 Seconds.
Solver found a solution. All
constraints and optimality conditions
are satisfied.
Solve time: 6.43 Seconds.
    
```

Another interesting part of Risk Solver Platform are Decision Tree.

Conclusions

1. Risk Solver platform can be used in solving different services optimization problems when we are working with uncertainty.
2. SAS can be mentioned as a leader on risk management for banking.
3. Using simulation & optimization it takes more time to Risk Solver Platform to solve our problem, but it is more easy to define the model and to interpret the results.

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Sub-section: Marketing

PUBLIC-PRIVATE PARTNERSHIP IN COMMUNITY DEVELOPMENT. THE CASE OF ROMANIA. CONCEPT AND MANAGEMENT.

Bibu Nicolae

*West University, Timisoara (Romania)
Faculty Of Economics And Business Administration (FEAA)*

Lisetchi Mihai

*West University, Timisoara (Romania)
Faculty Of Economics And Business Administration (FEAA)*

Abstract: *The public administration has a major role in partnerships establishing and operating with different community actors aiming at solving specific community problems. In the process of identifying and solving the community problems the actions of the non-governmental organisations are considered as “alternatives” to the solutions of the public administration.*

The advantages of an on-going collaboration between non-governmental organisations, as relevant agents in the social economy, and the public authorities aiming at solving the community problems were identified and acknowledged by both sides representatives. The access to complementary resources, and implicitly, an increase in the range of actions of the partners beyond mathematical calculus, an increase in the credibility and public image of the partners, as well as the social benefit corollary to positive models established within the community, are only a few of the arguments. The question raised is why this type of a more consistent approach is not used in the current practices of solving the community issues in Romania. The following causes should be considered in response to this question: the lack of an associative culture at the level of all potential partners, the access to resources is by far too limited on behalf of any of the two parts involved, a neutral, thus, unrestrictive legislative environment, but at the same time, unstimulating towards an associative action, i.e. limited management capacities on both sides.

From this perspectives, this paper aims at clarifying the partnership concept (definition, typology), the public-private partnership role in solving community problems and the management issues related: partners identification, negotiation of the cooperation protocol, decision making process and resource management, assesment, etc.

Keywords: *partnership, public administration, non-governmental organizations, public-private partnership, partnership management.*

JEL Classification codes: *L33, L38*

I. Public Administration and Partnership Practice

Bringing supplementary resources represents the aim of the openness of the public institutions to public-private partnership, as an instrument in community problems solving process. This openness is a must considering the genuine explosion of citizens' public needs corroborated with the cronic lack of resources any public institution has to face, regardless which part of the world it functions.

The Partnership Concept

Assuming partnership as a governing principle represents, from a political point of view, a democratic option and, thus, has the significance of a political message; meantime, it implies an great effort to ensure its institutional and procedural premises and, by consequence, has the significance of a institutional development program, situation which brings advantages and risks simultaneously. Among its advantages for the public authorities are increased public support for their ongoing programs, attracting

supplementary resources compared with the ones commonly available to public authorities and an increased adaptation of the public services to the community needs (Bancila et al. 2002:42). Partnership is not a purpose in itself, but, from a methodological point of view, it is a way to approach problems, while from a managerial point of view it is an instrument used in solving problems. Partnership is the way, formal or informal, through which two or more parties act together in order to achieve a joint goal or joint objectives, based on a joint plan of action and joint dedicated resources and under a joint resources and activities management. The specific approach through which resources are jointly dedicated under a joint management makes the difference between partnership and cooperation concept while the differences between the two words are difficult to notice from a semantic point of view. In the same respect, joint management makes the difference between a partnership and a funding relation.

As far as it concern the decision process, in partnership relation, the parties must not necessarily have equal shares, but is important that they are treated as sitting on equal grounds because partnership can not be build on a subordination relation. Consequently, in a partnership, the decision power can be split between parties evenly or proportionally with their contribution (Bancila et al. 2002:40).

The partnership types can be considered based on diverse criteria, acting simultaneously or independently, which generate a relatively complex typology (Bancila et al. 2002:39). Thus, from a legal point of view, partnerships can be formal or informal. When the goal is specific enough and achieving it is not a problem, an informal partnership can be established if the parties are similar entities, knowing each other and, eventually, having a cooperation history together. In the case of a more complexe or long term or if parties are different type of entities (NGOs and public authorities, or NGOs of different nationalities), partnership

tends to be formalised. Another criteria for partnerships classification is the type of the partnership goal. Thus, one can find *representation partnerships* like federations, unions, councils, aliances, coalitions, etc. together with *operational partnerships* which implies the existance of specific projects as a reason of the venture. Partneships can be established on a long or short term, with its own funding or attracted funding, etc.

Meantime, it should be mentioned that public-private partnership, as a specific cas of partnership [1], may define an public authorities' initiative to solve community problems by involving a private partners, either from business sector, or nonprofit sector. This paper is focusing on the second category of potential private partners.

NGOs as Public Policy Subjects in Romania

Coagulation and development of the nonprofit sector, as an alternative to the activity of the market and public institutions, creates the opportunity of an analysis of the public authorities-NGOs partnership management and, implicitly, the clarification of the nongovernmental organization concept. Comparing to the other categories of institutions which operate in the community, nonprofit nongovernmental organizations (commonly known as nongovernmental organizations - NGOs) ressamble to private commercial entities concerning the way they function, but their goals and objectives are focused on social needs approached through public interest activities, without a distribution of the profit (if does exist) among the persons involved in the activities. This brings NGOs closer to the logic of the public institutions (Andersen et al. 2010:8). There are many definitions on the nonprofit nongovernmental organization concept. According to the structural-functional definition (Salomon 1992:6), NGOs should meet couple of criteria: to have an institutional structure, to be of private nature, to do not share profit, to be self governed, to be volunteer run.

Further, the discussion is focusing on only some of the NGOs, more precisely, in the meaning of this text, nongovernmental organizations or nonprofit organizations are defined as an organizational category, formed by institutionalised entities, of private nature, dedicated to social needs, independent from public institutions and not interested in political power (i.e. political parties) or profit (i.e. commercial private organizations).

In some countries, the relations between NGOs and public authorities have a long and well grounded history. For other countries, Romania included, relations without an evident political character between NGOs and public authorities represent a new type of public relations emerged in the beginning of the '90ties. They were possible only when democratic changes in former socialist countries started while previously their governments kept all private initiatives under strict surveillance and administrative control (ICNL 2000). All the governmental strategies issued in Romania after 1990 included public authorities-NGOs partnerships as a constant objective for all governments. Periodically legislative and institutional initiatives aimed to facilitate public authorities-NGOs sectoral, national and local consultations were announced (Lisețchi and Olteanu 1998:3). While the governmental interest for NGOs has a history of over 20 years, a review of the public policy on NGOs main hallmarks shows that actual period is a transitional one and Romania is still in a phase of institutional set up (Lisețchi 2006:1).

NGOs' Evaluation by Public Authorities

In order to evaluate the NGOs' potential to be associated in the public policies elaboration, implementation and evaluation process, and, also, to apply the Romanian legal norms (O.G. 26/2000), it is useful for the public authorities to elaborate an appropriate methodology. Public perception on NGOs is an important factor in assessing this potential (Bancila et al. 2002:45). NGOs shows an

higher level of public trust comparing to authorities (FDSC 2010). Citizens' appreciation for NGOs is as increased as they: facilitate the citizens' participation, strengthen cohesion and solidarity, get involved in partnerships with the authorities and have strong local roots. NGOs seem to be less trustful if perceived as part of the public system, beneficiary and consumers of public resources, or if they are perceived as weak or centred on their own goals, if these are different from those of the community (Bancila et al. 2002:45).

Assessment Criteria of Public Policies on NGO

In order to foster the possibility of evaluating the willingness of the public authorities to get involved with the non-governmental organizations it is necessary to employ some criteria to ensure a standardised assessment of the associative behaviour of the public administration towards potential community partners. Such criteria (Bancila et al. 2002:45-46) are as follows:

- a) existing institutionalised structures that link the public authorities to the associative sector;
- b) exiting solution grids, accurately and univocally defined, such as recurrent institutionalized processes;
- c) applying the principle of equal opportunities to any non-governmental organisations that request assistance;
- d) applying the principle of supply and demand in any public administration-NGO relation;
- e) employing accurate selection criteria of the services offered by the organizations;
- f) the access of organisations to public services contracting within equal terms as other economic agents;
- g) the registration of relevant information regarding the organisations that perform their activity within the covered geographical area;
- h) jointly designing a job description of the public clerk whose attributions should

entail the relationship with the non-governmental organisations;

- i) showing interest in raising the awareness and the sense of responsibility of the elected officials in relation to the electorate;

II. The Partnership between Public Administration and Non-Governmental Organisations *The Opportunity of a Partnership between Public Administration and NGOs*

The advantages of an on-going collaboration between non-governmental organisations, as relevant agents in the social economy, and the public authorities aiming at solving the community problems, are as follows: the access to complementary resources, and implicitly, an increase in the range of actions of the partners beyond mathematical calculus, an increase in the credibility and public image of the partners, as well as the social benefit corollary to positive models established within the community, etc.

In the process of identifying and solving the community problems the actions of the non-governmental organisations are considered as “alternatives” to the solutions of the public administration. In order to render perspicuous the choice of the word “alternative”, it is necessary to explain that communities do not have to choose between the development model brought forth by the public authorities and a model suggested by the organisations, for the very reason that organisations cannot launch such an offer. Only in exceptional circumstances can NGOs entirely solve a community problem. At the same time, the way in which NGOs take action can represent a model of approaching a problematic matter, not the only way or the best way, however, most definitely efficient from the perspective of a cost/benefit analysis. This does not mean that non-governmental organisations are to replace the public administration or that they are to perform the duties of the latter. The offer of the non-governmental organisations does not represent an alternative *per se* to the

services offered by the public institutions. NGOs represent an action method complementary to the activities of the administration, through which the community becomes responsible towards solving their own issues (Lisetchi 2006:1). In this context, *the partnership can be considered a desirable principle of action* which can be found, to a certain extent, in the organizational culture and the practice of some public institutions.

Management Approach of the Public Administration - NGOs Partnership

In an attempt to optimize the public administration-NGOs partnership, some specific aspects are to be considered:

a) *different resources*: the authorities have the possibility to allocate public funds, as well as the capacity to issue regulations, while the NGOs have the possibility of accessing private funds, respectively, the expertise to solve specific issues and the capacity to motivate/mobilise volunteers.

b) *working method*: the operation capacity of the authorities is limited by the attributions foreseen by their regulations, respectively, a slow reaction held back by bureaucracy and the propensity towards solving the general issues, while the NGOs are more flexible, faster in their reactions and the tendency to focus on specific problems.

c) *the organisational structure and culture*: the authorities are larger organisations comprising complex structures, while NGOs are smaller organisations with simpler structures (Altman-Sauer et al. 2001:34).

The differences can generate tension; the main obstacles that hinder an efficient relationship between the NGOs and the public authorities have been identified: (I) different perspectives of the two sides concerning the same matter, (II) the lack of understanding the peculiarity of the activity carried into effect by the other, (III) the particular economic and cultural effects of the community on the communication methods, on the spreading of the information and of the

decision-making and (IV) the power relations between the two parts involved (Altman-Sauer et al. 2001: 35-38). The common element that was identified by the two sides, i.e. the fact that it addresses the same group (members of the community sharing the same problems) and the capacity to find solutions for the above-mentioned obstacles, can lead to an advantageous cooperation between public administration and NGOs, that will, consequently, benefit the community.

Cooperation within a public-private partnership is facilitated in the following circumstances: collaboration should focus on a single matter, the purposes are clearly stated, public participation in the process of solving the community problems, each partner should devote time and resources to plan the cooperation, the intentions and coordinates of the partnership should be clearly established by the two parts, the necessary resources for a good cooperation within the partnership should be accurately identified, assessed and allocated, communication should be appropriate and efficient, the attributions, skills and responsibilities of each partner should be specified, a decision-making system based on the equal status of the partners should be designed (Altman-Sauer et al. 2001:34-35).

Exercising the Public Administration-NGOs Partnership in Romania

If at the beginning of the last decade non-governmental organisations were perceived as being rather anti-governmental by the public authorities, partnerships between them being exceptional, currently things have changed considerably with the opportunities offered by the European financing programmes prior to Romania's accession to the E.U. The fact that the European Union, according to the financing programme, either imposed on the public administration the partnership with the non-governmental organisations, respectively, imposing on the public institutions the partnership with NGOs, or it granted a higher score for such

collaborations, has led to a spectacular proliferation of the number of public-private partnerships in Romania. It is worth mentioning that, as a consequence, more funders took up this approach as part of their financing policies. Given this context, towards the end of the last decade, partnerships became a purpose themselves, being assessed inconsistently in terms of the management or the results of such a process.

On the other hand, financing the projects of the non-governmental organisations by the public authorities, as a recommended practice by the community development theory, has led to an extensive employment of the term partnership in the marketing discourse. Nevertheless, such an interpretation of the financing relationship between the two types of institutions, even if valued on first sight, is abusive if compared to the concept of partnership which entails a process of co-decision in operating the tasks to be handled by the parts involved in the partnership. Regarding the above-mentioned issues, the problem raised is that the public-private partnership is deprived of its deep structure and meaning.

To bring forth a general perspective regarding the practice of the public-private partnership, it is worth mentioning that, as in the case of Romania, the current legal framework allows the development of the relations between public authorities and the non-governmental organisations (OG 26/2000). The question raised is why this type of a more consistent approach is not used in the current practices of solving the community issues in Romania. The following causes should be considered in response to this question (Lisetchi 2006:20): the lack of an associative culture at the level of all potential partners, the access to resources is by far too limited on behalf of any of the two parts involved, a neutral, thus, unrestrictive legislative environment, but at the same time, unstimulating towards an associative action, i.e. limited management capacities on both sides. Concerning the issue of the associative culture, the GLOBE

Romania research (Bibu et al. 2008) shows that in relation to the obtained score for the cultural dimension criterion, *Institutional Collectivism* (Collectivism I), Romania is situated on a scale from 1 to 7 at a relatively low level, 3.75, in comparison with the rest of the world. This number outlines the degree to which institutional practices at the social and organisational level encourage and compensate for the collective distribution of the resources and the collective action. A low number indicates less collectivism, thus, more individualism in relation to the general interest in society. Nonetheless, the score of 5.43 for the cultural dimension *Group Collectivism* (Collectivism II) is situated at a higher level on the world scale, which indicates that in Romania individual expressions of pride, loyalty and cohesion within smaller groups, such as the organisation, the family, are more recurrent. Romanian culture favours smaller groups and their interests and puts at a disadvantage the general interest in the society. Consequently, the associative factor is not favoured by the Romanian culture. The narrow interest of the group they belong to is the strongest. Perforce, it is necessary to clearly point out the common areas of the two partners in order to render the partnerships viable.

In practice there are naturally more differences in approaching the way in which the authorities and NGOs relate to community problems. Public administration tends to unfold partnerships in especially in certain fields: unemployment, social care, local development, citizen-public administration relation, health, SMEs, environmental care, education, the non-profit associative sector, the protection of the disabled, tourism development, child care, regional development, culture (Bancila et al. 2002:42).

In establishing the partnership vocation of the NGOs, the representatives of the administration tend to employ, in this very same order, the following indicators: the objectives of the organisation, the target-

group, the resources of the organisation, the impact, the level the public participation. There is a considerable difference between this evaluation grid and the one carried into effect by the financing foundations (for example, the small amount of importance given to the impact), which can be explained through the different experience in terms of evaluation of an organisation and its programmes.

In Romania, according to the public administration representatives, the following major obstacles stand in the way of the administration-NGO partnership: deficiencies in the functioning of the authorities 29%, inadequate institutional and legislative environment 22%, authority resources 15%, disfunctions in the running of the NGO 15%, lack of information 10% (Bancila et al. 2002:44). In effect, it was noticed that in the past few years in Romania, falling beyond an existing theory concept and favourable narrative discourse, there still exists an unequal involvement of the two potential partners in the development of the collaboration. Naturally, there are also many cases of partnerships between non-governmental organisations and public institutions, this fact being registered positively. The truth of the matter is that, on the background of the opening declarations of the public authorities on the common actions, there is a passive attitude towards this type of approach on behalf of most of the institutions (Lisetchi 2006:21-22). The initiative regarding the common resolution of the problems of public interest continues to be to a great extent in the hands of non-governmental organisations. Needless to say, not all organisations can be included in our analysis, as well as not all public institutions are part of this discussion. Nuances of the discourse should be observed in the context of a reality in which not all non-governmental organisations should take a role in the public welfare, inasmuch as the assertion above does not mean that all public institutions should collaborate with non-governmental

organisations in order to deal with community problems. NGOs are, in general, the ones who request the collaboration of the public authorities according to various conditions: individual priorities, willingness to work in a partnership, the public relations image of the organisation, etc. The public administration accepts or refuses to be involved in such actions. At a surface level, the normality of the situation described above cannot be refuted. The problem, though, that should be raised revolves around the attitude towards the responsibility of solving the community issues of the two potential partners. If, for the public administration, this type of responsibility is legally regulated, having a binding character, imposed, and, eventually, it represents the reason to be of a public institution, for the non-governmental organisations, as structures of private initiative, taking this kind of responsibility is the result of the individual willingness, motivated by the interest in the public welfare of a private group. (Lisetchi 2006:22).

Recommendations Regarding the Public Administration-NGO Partnership

The problem of the partnership between the public administration and the non-governmental organisations represented an interest point for the Romanian nongovernmental sector even from the period of the first mandate of The Group for the Implementation of the Resolution of the NGO National Forum (GIR) formed in 1998. Thus, some general recommendations that make direct reference to the current discussion can be enlisted among the mentioned activities within the context of a GIR proposition regarding the future actions of the associative sector:

a) The reinforcement of the local and central public administration capacities to work with the civil society, manifested through public authorities agreement procedures of the non-governmental organisations as service providers and organisers of citizen consulting centres

b) Involving the citizen in the public decision-making on the basis of pre-arranged procedures

Altman-Sauer, Henderson and Whitaker (2001:37-38) have a couple of recommendations for the two parts involved in the promotion of the NGO-public administration partnership:

What can the non-governmental organisations do?

1. Inform the relevant authorities throughout the year about their progress, not only in the case of the partnership launching or fund raising.
2. Attach importance to the functioning of the entire community, not only to the organisation target group.
3. They should be responsible and fair and bring proof of that to the public eye.
4. To reinforce the trust of the public in the organisation by presenting a trustworthy and professional image.
5. To help the community learn how to manage the problems that the organisation tries to solve and into which they have not gained an insight yet.

What can the public authorities do?

1. Diminish the frustrations, tensions and mistrust in the NGO.
2. Ensure an overt management of the financial requests which come on behalf of the NGOs.
3. Tackle the problems and needs of the community as being part of it, not only the ones of the NGOs.
4. Recognise the potential of the NGO as a serious investment.

What can the non-governmental organisations and the public authorities do together?

1. Exchange information during their common work relations, as well as in general.
2. To commonly use certain resources.
3. To develop clear guidelines about each part's expectations and work on this to reach a common balance ground.

4. To acknowledge the other part as the best support for dealing with the public sector priorities.

Apart from the usefulness of these recommendations, it is foreseeable that carrying them into effect in the partnership between the public administration and the non-governmental organizations is done progressively, during a slow process conditioned by the common culture in Romania, both at an institutional and at an individual level. Nevertheless, their value is highlighted by the possibility of their use as a referential point towards which the organisational behaviour of the two types of institutions should be oriented, as well as criteria for a post-factum evaluation of the management and the results of the partnerships.

Note:

1. It is worth mentioning that the partnership typology also comprises public-public or private-private partnerships, apart from the public-private one.

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Sub-section: Management

ORGANIZATIONAL STRESS AND ITS IMPACT ON WORK PERFORMANCE

Bucurean Mirela

University of Oradea, Faculty of Economics

Costin Mădălina-Adriana

University of Oradea, Faculty of Economics

Abstract: *Nowadays, in times of economic crisis, most managers or entrepreneurs have to cope with a lot of new job challenges which can easily transform into stressors. Work related stress is of growing concern because it has significant economic implications for the organization. Even if some stress is a normal part of life, excessive stress can influence one's productivity, health and emotions and it has to be taken under control. When people lose confidence, they refuse to take responsibilities, they get quickly irritated, they are unsatisfied of their job, their performance will be very low and the organization will be in danger. Fortunately, most managers and entrepreneurs know which stress main symptoms are and have the necessary knowledge for managing and reducing it before it can affect employees' daily work.*

Stress can have an impact both on the organizational welfare and on personal behavior of supervisors or employees, that's why, the ability of managing it can make the difference between job's success or failure.

The purpose of this paper is to study Romanian managers and entrepreneurs from Bihor County's perception regarding the stress phenomenon, if they feel that they are affected by stress, if they promote some methods to reduce it and if they consider that stress can influence the organizational performance.

As a research method we used an online questionnaire, applied to a number of 75 managers and entrepreneurs that represent the target group of the project "Flexibility and performance through management", project financed by the European Social Fund - "Invest in people". Each participant had to answer a number of 35 questions regarding stress and the results will be presented in this paper. The main conclusion is that, even if job itself is seen as a stressor, there are other important factors that can produce stress such as: family problems, personal problems or social problems.

Keywords: *organizational stress, impact, managers, entrepreneurs, work performance*

Cod JEL lucrare: *M54*

1. Organizational stress

Organizational stress can be defined as an emotional, cognitive, behavioral and physiological response to the aggressive and harmful aspects of work, work environment and organizational climate. It is a condition characterized by feelings of helplessness in solving tasks.

In other words, work-related stress is people's reaction when they have to face some demands or special tasks that are out of their abilities or knowledge.

Types of organizational stress

The main types of organizational stress can be considered the following (1):

Eustress represents a positive kind of stress and helps people to prepare their mind and body for whatever is about to occur in the future. *Eustress* can develop one's energy, creativity or competitive spirit and can offer the strength for achieving performance.

Distress occurs when something affects one's routine for a short period of time. It has a negative impact on people and it contains the following categories of stress: acute stress and chronic stress.

Acute stress appears when a change transforms one of the usual works that a person do. Although it seems to be an intense type of stress, it passes very quickly. The symptoms to that kind of stress are: headaches, hypertensions, rapid heartbeat and stomach problems.

Chronic stress is the most serious type of stress and can be very harmful for people's health. It occurs when something changes the routine for a long period of time, from weeks to years. This kind of stress appears when facing several work or personal failures.

2. The effects of stress on the entrepreneurs/managers and stress management

The relationship between stress sources, symptoms and diseases caused by stress for managers/entrepreneurs, can be graphically represented like this (Fig. no. 1):

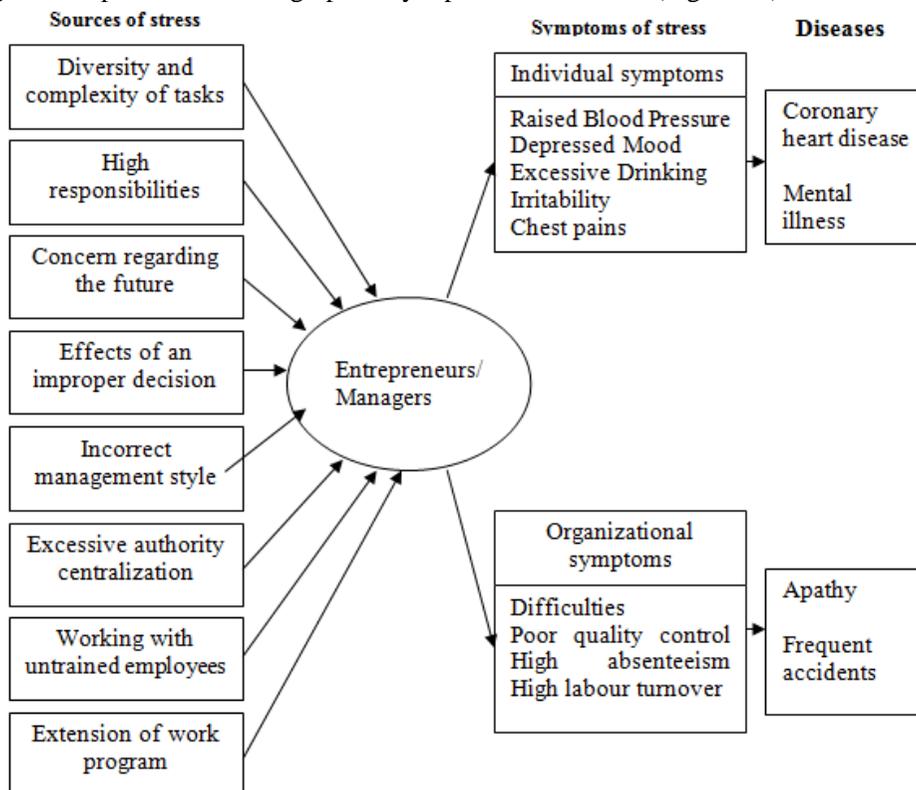


Figure no.1 The relationship between stress sources, symptoms and diseases caused by stress for managers/entrepreneurs (2)

Adaptation by: Agrawal, Rita, *Stress in life and at work*, Response books, London, 2001, p. 146

Sources, symptoms and effects of stress for entrepreneurs/managers

After analyzing the causes of organizational stress we can distinguish between those who act solely on entrepreneurs or managers.

These causes can be the following:

- the diversity and complexity of tasks;
- high responsibilities that require management positions;
- concern for the organization's future;
- aware of the potential effects of a poorly developed decision;
- inappropriate management style;
- excessive centralization of authority;
- the existence of poorly professional trained subordinates;
- the extension of work program due to the emergence of some special situations.

Ways of managing individual stress

There are a lot of actions that individuals can take in order to manage their stress level and to prevent them from developing into more serious problems. The main positive actions that people can take fall into three categories:

- modification of behavior;
- development of a healthy lifestyle;
- alteration of mindset.

When talking about *behavior*, the interventions that can be made are:

- being more assertive: listen to others, respect others, tell others what you feel or need, negotiate, compromise, being self-confidence.
- improving time management: establish priorities, make a list of what must be done, eliminate time-wasting activities, focus on essentials, be able to delegate effectively, learn to say “no”, organize daily activities, make a list of targets.
- avoid perfectionism
- avoid getting angry over things that you cannot influence;
- accept (sometimes) the errors of yourself and others;
- smile and give affection;
- practice being a good listener;
- learn to relax;
- learn to turn stressful life events into challenges for personal growth;
- get used to take some “time out”.

As far as *healthy lifestyle* is concerned, the main activities that people can follow are:

- a healthy diet: alcohol taken with moderation, limited quantity of caffeine, avoid carbohydrates, eat fruits, vegetables and sufficient quantity of water;
- regular exercise: reduce muscle tension, increase energy, maintains self-image, appearance and tends to control weight, helps to clear the mind of worrying thoughts;
- relaxation: improve sleep patterns, ameliorate pain, reduces stress response, increase self-esteem;
- increase leisure time and taking up hobbies.

The third area in which people can make interventions refers to the *alteration of mindset*, including:

- modification of perspectives;
- self-talk;
- positive thinking;

Ways of managing organizational stress

There are a lot of strategies that can be applied when talking about managing organizational stress, such as:

- early prevention and elimination of work-related problems that can produce stress;
- change work demands;
- ensure that employees have the necessary knowledge and abilities to perform effectively their jobs;
- improve constantly the technique used at work;
- apply a proper management style;
- ensure a proper work environment;
- offer employees a stress management training in order to teach them ways of overcoming stress;
- increase the support needed by employees;
- ensure a good level of cooperation within employees;
- clearly define disciplinary procedures;
- establish a supportive working culture in order that employees feel integral to the organization and are motivated to achieve its goals;
- offer employees the necessary support and information for developing their career;
- encourage flexible work schedules;
- try to manage the change process in a way that employees cannot become stressed due to it.

3. Case study - aspects of stress perception of entrepreneurs and managers from Bihor County

The proposed research was conducted by using the database of the project "Flexibility and performance through management" developed in partnership by the Faculty of Economics and Business Administration, University of Craiova and the Faculty of Economics, University of Oradea as a

partner, no of contract POSDRU/81/3.2/S/57620, implementation period: 12/02/2010 to 01/31/2012 in the amount of: 2,137,229 lei.

The project's general objective is to develop the professional skills of general managers in order to prepare them to promote the adaptability and the introduction of new technologies. The specific objectives are: the professional training of 180 entrepreneurs and SMEs managers from two development regions in order to promote new forms of work organization and new technologies with reduced environmental impact; the increasing of informational level of the target group entrepreneurs and managers when talking about the necessity of introduction and the compliance of safety and health rules at work. Further the study will be referred to the target group of the NW - Bihor County.

Research Methodology

This research is a descriptive one and its aim is to provide an image at a certain time on the studied phenomenon - stress. For implementation of this quantitative research was chosen as a research method - the survey. For this purpose, a structured questionnaire was developed in two parts with 35 questions.

The target population is the target group - Bihor County entrepreneurs and managers, participants in the course of the project - "Flexibility and performance through management", project financed by the European Social Fund - "Invest in people". The database of the target group - entrepreneurs and managers from Bihor County is based on online questionnaires. This database has a total of 75 entries.

The respondent's structure

In terms of affiliation to a business category entrepreneur/manager, 40% of respondents are entrepreneurs and 60% are managers at all levels within the SMEs.

Gender structure. The share of women in the total number of respondents is 40%, 60% are men.

Age. Taking into consideration the age in completed years, the situation is as follows: 16%, 18 – 24 years, 73%, 25 – 45 years, 9%, 45 – 54 years, 2%, 55 – 64 years.

Regarding family status, most participants are married (62.8%), 34.8% are unmarried, 0.04% being divorced.

Stress and stress concerns

45% of respondents work more than 48 hours per week. In these circumstances, it is not surprising that 70% of respondents believe they are affected by stress (Fig. no. 2).

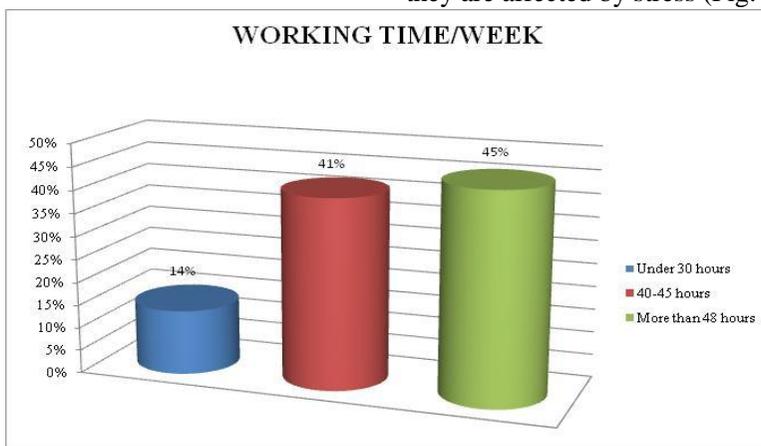


Figure no. 2 Working time/week in the case of managers and entrepreneurs from Bihor County

It follows therefore that a larger number of respondents believe they are affected by stress. 69% say they are concerned about stress, but only 21% say they have adopted measures to combat stress. Also a small number of managers (18%) say that the organization in which workers have been taken measures to combat stress. (Fig. no. 3)

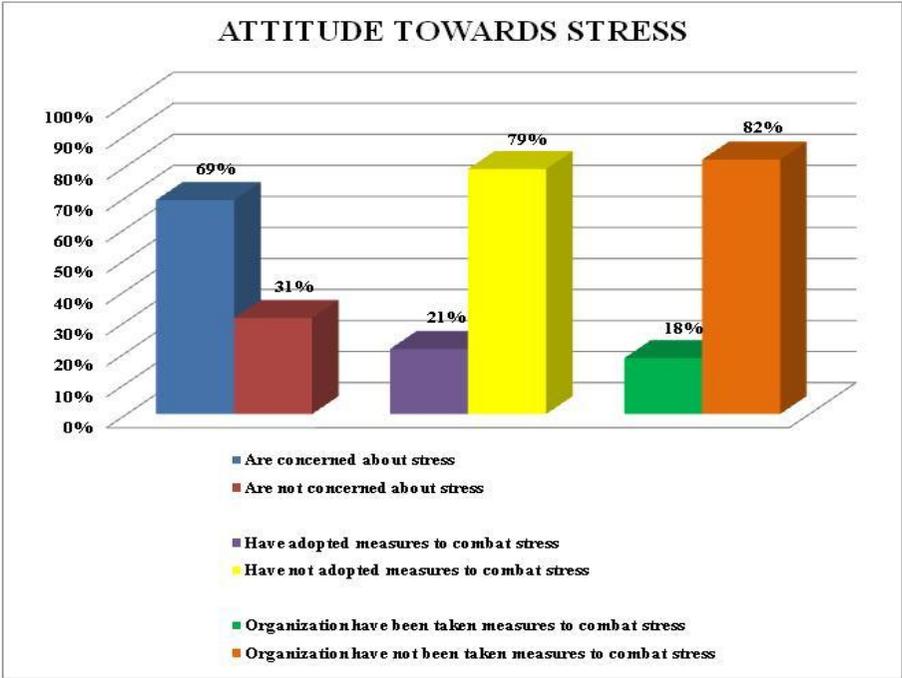


Figure no. 3 Managers, entrepreneurs and organization’s attitude towards stress

To a large extent (85%) respondents considered that work is the main source of stress in their lives. (Fig. no. 4)

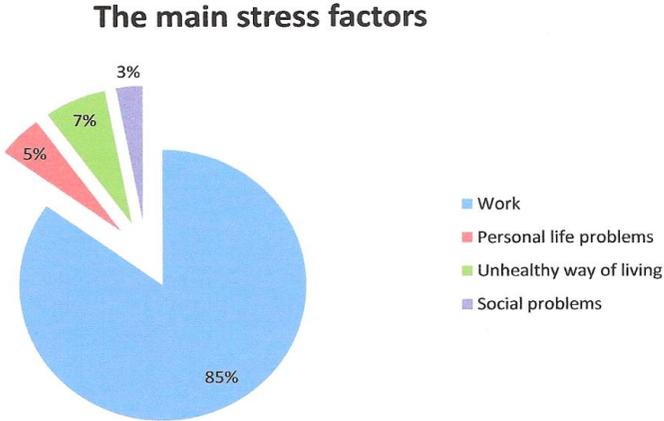


Figure no. 4 The main stress factors

Over 65% of questioned people said they would continue to work even if they did not have any financial need. Many managers, however, (60%) would prefer "to work elsewhere."

A minority of respondents (16%) say that there are situations in which stress motivate them to act in order to achieve something - it is positive stress (eustress); but the most common is negative stress (distress), when body and / or mind begin to respond negatively to stress agents. Over 85% of respondents considered that the stress level is much higher now as compared to five years ago.

4. Conclusions

According to the conducted cross research the conclusions are the following:

- entrepreneurs are more stressed than managers;
- women entrepreneurs/managers are more stressed than men entrepreneurs/managers;
- married entrepreneurs/managers are more stressed than unmarried entrepreneurs/managers;
- the majority entrepreneurs/managers believes that stress level is much higher now as compared to five years ago;
- the entrepreneurs and managers are concerned about stress;
- on personal level, entrepreneurs/managers usually fail to take measures to combat stress;
- within the organization are generally not taken measures to combat stress;
- the situations in which stress motivate entrepreneurs/managers to act to achieve something are rare;

- entrepreneurs/managers believe that work is the main source of stress in their lives;

- entrepreneurs/managers would continue to work even if they did not have any financial need;

- most of managers would prefer "to work elsewhere".

Concluding, although the work is considered the main source of stress, not the work itself is stressful, but the conditions and social environments in which it unfolds.

Notes

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ELEMENTS FOR A MODEL OF ENTREPRENEURIAL SCHOOL FOR WOMEN IN RURAL AREAS OF ROMANIA

Botezat Elena

Faculty of Economics, University of Oradea

Tarcza Teodora

Faculty of Economics, University of Oradea

Abstract: *Romanian mentality, especially in rural areas is deeply influenced by culture, literature and history of the Romanian people. This proves to be both adaptable and rooted in the old Romanian traditions and customs. In the last two decades, the transition from socialism to capitalism, modern society, the socio-economic development of the country has left strong impressions on the way of thought, expression and action of the Romanian people. Women in rural areas are no exception. As some groups of people interested in their development of social-economic scale, rural women are trying to adapt, to evolve, to overcome the barriers imposed at psychologically, socially and financially.*

The paper highlights the results of a survey on a sample of 979 women students in the project "Entrepreneurship and Equal Opportunities. An inter-regional model for women entrepreneurial school "(AntrES acronym), which certified mediators intention to initiate their own business. The results of questionnaires have provided important information about the character, ambition, motivation, courage, and moral support and financial support to women entrepreneurs based in Romania, including those in rural areas. The information obtained inetrmediul "I shattered" 7 myths about starting a business in our country. Romanian entrepreneur spirit, women in rural areas in Romania is not only a manifestation of strong desire to improve living standards in financial terms, but rather an "effort" to improve and "beauty" of the individual, family, environment and society we belong!

In developed countries, at its home, female entrepreneurship is trying to reform, to seek new solutions to rethink the principles, to exercise imagination, to learn. Here, in Romania standard behavior still predominates. Female entrepreneurs are doing what everyone else in the same category does. The future however belongs to those who will opt diversity, surprise, excitement, personalization. How could this happen in the Romanian rural environment and take place in a sustainable way?

Keywords: *antreprenoriat feminin, mentalitate românească, mediul rural, mituri, potențial*

Jel code: *M12, M52*

1. Continuity and change in rural Romania

"The main feature of Romanian people is its gregarism, a condition imposed by the circumstances and traditions, no entrepreneurs come out from within the rural population, however exists a tradition of collective work, each aligning with what others do. From the perspective of the future, gregarism continued as such, can be fatal. Modern society requires individuality, consciousness of effort and personal sacrifice". (Radulescu-Motru in Malița C. M., 2010). Modernity entered the Romanian

society over 200 years, but has not profoundly changed economic and social life, especially in rural areas, the Romanian village. The continuous transition of Romanian society and especially the latter, the last 20 years, gave birth to a mosaic, a modern "type patch" without a clear dominant form. It is a modern trend, ie a type of modernity that affects only a certain part of society and is beneficial only to certain groups concerned with their economic and social condition. (Schifirneț, C., 2007, 2008). Romanian mentality is the result of survival

in a given area, seen as a drama in time - paraphrase by Patrick Geddes, who proposes the term "survey before action", ie the need for building action on a synergy between ecology, economics, politics and anthropology. Data collection should blend with the description, explanation, observation integrated into a systemic research, in which the mentality seems to occupy a central place as part of a unique spiritual model, specifically built over time, which determine the motivation for use of resources on a territory (area, central area, region). Romanian mentality, especially in rural areas shows a great capacity for adaptation and also versatility, a balance between idealism and fear, between the initiation of large projects and autoassertion of certain limits. In fact, Romanians have all the features, static distributed in the population, but what is evident is that they change according to circumstances, meaning they are adaptable (Malița, M., 2010; Draghicescu, D., 1995). *Adaptability*, as a intermediate soul structure between Western creative ability and Oriental passive resignation may mean evolution, intelligence, finesse, suppleness, as progress may mean cowardice, duplicity, cunning, superficial. (Ralea, in Malița M. M., 2010). There seems to be more obvious what Mihail Ralea says in his book in 1933, *Romanian Phenomenon*, that "progress towards modernity will never come from autochthon localism, but of Europeanization". "Romanianism, ie, what is particularly unique and Romanian, is not done, yet not coagulated, but with a bergsonian formula, is yet to be done. He's still that prospect that is questing, endeavouring itself "said Michael Ralea. This emerging trend is visible in many Romanian villages in western Romania, with new and modern homes, through various goods and crafts exposed along the road and especially by many rural firms who have found qualified and cheaper labour force, lower rents, lower taxes. In addition it seems to be some kind of reconciliation of the "house" with "work", after over 20 years,

during which millions of Romanian worked in Europe where they have adapted, were integrated and learned. Sometimes by bitter lessons, sometimes paying a price too high. Some have returned and are looking to do something, here at home, home being a state of mind rather than a specific location. Rural community, like all other social forms, is the result of six components: biological, moral, religious, aesthetic, economic and political (Braileanu, T., 2000). Migration of Romanians abroad was primarily due to financial reasons, poverty. What we need to say at this point, however, is that it talks about three types of poverty: "Poverty of goods and money (type I), moral poverty (mediocrity of social feelings, of the sense of family, of the love of nation, love for God and neighbor), which is a poor type II and poverty type III, the one in knowledge"(Daniel Bell Badescu, I., 2005). "The dominant mentality is that of trade and finances, which have created, trained and handled a consumption society, in which the citizen identity has been replaced with the credit card. There is no falsification of the human essence more bitter than the representation of man as a seeker of silver pots. He looks, indeed, other treasures, which ensure a dignified life and by merit earned through effort and wise strategy ... The crisis revealed the weakness, which requires time for healing and normalization". (Malița, M., 2010).

2.The research of entrepreneurial intentions of women in rural areas within the project AntrEs

Between January 2009 and December 2010, was implemented by the University of Oradea Faculty of Economic Sciences as coordinator, the project "Entrepreneurship and Equal Opportunities. An inter-regional entrepreneurial school model for women "(acronym AntrES) strategic project financed by the European Social Fund, the key area of intervention "Promoting an entrepreneurial culture". The main objective of the project

was to promote equal opportunities for entrepreneurship by encouraging the involvement of women, in general, rural women, especially in the initiation and development of their business in the context of sustainable development of communities in the counties located along the western border of Romania (Bihor, Timis, Arad, Maramures, Caras-Severin, Satu-Mare). Among the specific objectives were enrolled: providing training to acquire expertise in business startup; active promotion of lifelong learning, promoting competitive spirit by awarding the best business plans, dissemination of best practices in entrepreneurship in order to develop sustainable communities in the counties located along the western border of Romania.

The study conducted between July 2010 and March 2011 followed the intentions of a number of 874 women - women business school graduates from rural areas of West Romania to start their own business.

Data were collected through a survey at the beginning and end of the Module I course - Starting a business, conducted between July-September 2010 by non-directed interviews and by the study of documents prepared within the project mentioned above.

The initial sample consisting of 979 women presented a series of characteristics retrieved synthetically as follows: average age is 35.47 years, 74.6% are married, two-thirds live in households with one or two children, 66% are employed and 84% did not initiate any deal so far. 43% of the total have undergraduate and graduate studies, almost 60% work for the state (public administration or education) and intends to open a business in trade - 32, 4% as expected in agriculture.

According to the latest data, the number of newly established businesses by the entrepreneurial business school graduates at the rural level is 88 (10% of graduates), as follows: Bihor - 18, Timis - 8, Arad - 12, Maramureş - 29, Caras-Severin - 9, Satu Mare - 12.

What factors have led these graduates to take action to overcome their fears and leave their habits? And especially what are the key elements on which an entrepreneurial school for rural Romanian women must be based to succeed?

In an attempt to provide a consistent answer to these questions, we will start from the results of the questionnaire analysis, questionnaire applied in the 72 rural centers of business school for women, to a total of 979 respondents:

- Question 1: What do you think are the chances to open a successful business? 12% of the respondents believe that the chances to open a successful business are high and 53% believe the chances are average;
- Question 2: What are the qualities you think a woman needs to open a business? Choice number 1 was: confidence, courage, optimism - for 184 respondents (18.79%); intelligence, intellectual resources - 130 respondents (13.27%); will and ambition - 128 respondents (13.07%);
- Question 3: Which is the reason you are willing to start a business? Responses were: the need to earn more - 46%, the desire for fulfillment - 33%, desire to have a higher social and professional status - 12%;
- Question 4: What support elements do you think are needed to start a business? 66.49% - financial and material resources, emotional support (family, friends, close) - 10.72%;
- Question 5: What do you think are the areas in which to start a successful business? Trade - 335 respondents (34.21%), tourism - 210 respondents (21.45%), other services - 118 respondents (12.05%);
- Question 6: How should labour be seen to succeed in business? A pleasure - 79%, a necessity - 9%, a duty - 8% non answers - 4%;
- Question 7: What is the factor which depends primarily on success in business? Courage / audacity - 30%; intelligence - lucidity - 23%; exercise capacity - 15%; socio-economic context - 13%; chance - 11%; imagination - 4%; non answers - 4%

The review of the results is shown below.

Seven myths dispelled

The first myth: Second hand entrepreneurs do not take risks!

Reality: The entrepreneur may seem to the uninformed spectator strait-laced and conservative, but that does not mean that he is not prepared to engage boldly assuming significant risks. Like when you prepare to climb a high mountain, you can be fearful, but such a challenge puts the blood in motion and can generate a momentum and a huge effort. And something more: "the Romanian is more difficult to move and easier to stop. It does not seek immediate spectacular results, but other more subtle and profound". (Malița, M., 2010). The society within us, a product of the spirit of our times, puts his stamp on the limited, strait-laced of our thinking. "We all live in a very narrow cage, the spirit of our age in which we have very little freedom of movement. If in different ages, people have thought in different ways, not because it was due to expanded cage, but for the fact he was moved from place". (Szent-Gyögyi, A., 1981).

Second myth: With the ability of an entrepreneur you have to be born!

Reality: Man is build, as a road as long as it is it starts with the first kilometer. In our opinion, even if someone does not seem to be an entrepreneur, he/she can become! There are no few recent examples populating the area of knowledge that we have access. "Life itself is what you want it to be" (Marcus Aurelius). To do this you first have to believe (strongly). "Transformation, real change always occurs from the inside out ... arising from work which toils at the roots, operating on our way of thinking, on the paradigms that define our character and create the lens through which we view the world (Stephen R. Covey)". Romania is trying to change the binding data and seeks to define objectives and methods that allow more suitable ways to promote the interests, of which the first is survival." (Malița, M., 2010).

The third myth: In business you enter to make money!

Reality: A professor of production management for a long time explains to his students the importance of "a job well done", until he was interrupted by a (bored) student who said (determined) "I do not want to make products, I want to make money ". The professor (calmly) asked: "And the money for what?". Contrary to popular saying, money brings happiness. *A kind of happiness.* One direct, material that is not rejected at all, or even a more subtle dependent on the holder person, most envied (the joy of giving). Poverty is far from being "a card" and has little to do with "honesty" (almost at all). Therefore we advocate for "wealthy and honest" and not for "poor and honest ". At the same time, with more conviction, we believe that continuing to work hard in a business where money is no longer a problem is something to be appreciated (very much). What is worth saying at this point is that the path to "having" (sparingly!) has many other items, ie determination. Obsession to make money seems to be a fairly sure way not to get them!

Fourth myth: In business you have no friends!

Reality: Is it all true that "the spirit of democratic capitalism, which led to development was to encourage individual, based on deep understanding that this is the main source of economic and social power (Novak, M. Ionescu Gh in Gh, 1997). But this is individualism? That crazy idea that "the world begins and ends with you", that you are enough? Not so, the existential model is quite different. Beyond having with what to live, you have to have something to live for. It is natural to pay special attention to our business, our goals, our ideas. But the result of an exclusive concentration on interests and selfish attitude of seeing the world as a whole and the people around us as tools used in our plans lead to counterproductive and disgraceful results. Key terms of today's economy, durability, in my view, female

entrepreneurship in rural areas of western Romania, refers primarily to the people!

Fifth myth: A successful business requires a great idea!

Reality: Setting up a business from such a conception may be a bad idea. Few businesses have been based on such an idea. In fact, some have been established simply based on an idea more simple, banal even while another group were raised from the ashes of failure. "the Romanian can not accept almost any event or program in a form which is given, or is required. The Romanian is realistic. He rates fiction, myths and legends he likes, but keeps his feet on the ground ". (Malița, M., 2010). We join the mathematician Grigore Moisil's opinion, that the logic is rather a nuanced reasoning in which thinking is evolving in a direction that includes, besides true and false or dubious value as possible, with possible and necessary.

The sixth myth: In business the most important thing is "to deal"!

Reality: Our view is that the vital question for an entrepreneur is not : "How well am I doing?" Or "How can I cope?" Or even "How well we handle ourselves to cope competition?" but "How can we make things better tomorrow than we did today? ". The history of a business is written by its people and their work is the special "ingredient" in the "magic formula" that "is to grow". "The Romanian undertakes all the action, if it has a real motivation." (Malița, M., 2010). Motivation is an emotional drive type, but with rational arguments. More strings must vibrate: ambition, rewards, influence, social position, reputation. But beyond these events rather selfish comes a heavy argument: "you are what you know to do".

The Seventh Myth: You have to be lucky to succeed in business!

Reality: Reflecting on the essence of success, J. Willard Marriott, wrote in his diary: "Discipline is the most important thing in the world. Where there is no discipline, there is no character. And with no character, there is

no progress ... problems gives us the chance to grow. And usually, we get the thing for which we worked. If it encounters obstacles and overcome them, we anneal our character and qualities that bring success". "Long term success of a business organization, is determined by three main factors: 1. good planning of various activities / actions, 2. a better implementation of various plans / strategies, 3. luck or that non-chance in a given context. " (But the chance never comes to an unprepared mind – o. n.) (Harrington & Harrington, 2001).

3.Preserving the essence and stimulate progress

In our view, in rural areas, women have a real chance in the direction of setting up a business because "the village is the shrine where she took refuge and is kept living the manifestation of the Romanian people" (Dimitrie Gusti) including the preservation of moral values and skills necessary to create a complete product, in other words knowledge.

As Professor Allen Wilson, a biologist at UC Berkeley who has studied closely the behavior of birds, knowledge creation and dissemination of appropriate behaviour had to do with three basic elements: 1. mobility (the ability to move freely to learn and experience) 2. spread within the community (the ability to transfer from individual to community building communities of best practice), 3. innovation (the ability to develop new skills to take advantage of new knowledge in specific environmental conditions) (Hjelmervike Ove R., 2001). We have identified the existence of these elements in the rural areas of western Romania, including examples of adaptation between the most interesting. Adaptation, defining feature is based on the characteristic skills: *knowledge, information, experience, which can be put into use to create wealth and remain the same in any social environment.* Efficient use of knowledge, skills, abilities and cultural values of rural women towards encouraging female

entrepreneurship depends on public awareness that women, who prove to be more vulnerable, more exposed to "insolvency" are much more concerned than men on what she spends, what she earns for food, education and child and family health insurance (Brockhaus, R. & Horwitz, P., 1986 Miniti, M. & Naud, W. 2010). Despite many obstacles in the way of Romanian rural female entrepreneurship, we believe that it "is about to get done, although is still that prospect that is questing, endeavouring itself" (Michael Ralea).

On the basis of this statement there are three important aspects:

- *the existence of a potential* consisting of knowledge, information and experience which can help achieve competitive products and services;
- *the ability of this potential* to transform in a number of operational elements, creating value, to be integrated into final products;
- *grafting this potential of adaptation* as a characteristic feature, which is a transformation, an adjustment, a location, a selection that you cannot do without having inside the affinity with what you choose. In our view, rural female entrepreneurship in Romania is not only something that is expressed in terms of improved incomes, the desire to avoid dependence on others or even better control of their lives but most of all, "a deed " that improves the person concerned and the world around them. It takes however a first generation of entrepreneurial skills to rehabilitate honest skill, science - and pride - to do what you do with virtue. Future will not mimic models but invent them!

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HOW FUTURE MANAGERS VIEW SOCIETAL CULTURE: A CROSS-COUNTRY COMPARISON

Catana Gheorghe Alexandru
Technical University of Cluj-Napoca

Catana Doina
Technical University of Cluj-Napoca

Abstract: *Our study aims at enriching the existing literature about the prospective managers view of an ideal societal value system and the existing cultural practices in their society. The findings about the students' perception on cultural practices and their expectations about societal culture are helpful in imagining the societal culture in its dynamics. The research sample consists of 727 students in business and engineering on undergraduate and graduate levels from Romania and Slovenia. The reason we have chosen to compare Romanian sample with the cultural profile of the "average" future manager from Slovenia is the scientific curiosity of finding out if there are signs of cultural convergence of Romania with a previous communist country, and an older member of European Union. In doing so, our study will hopefully broaden the body of knowledge about the cultural convergence (or divergence?) between the former socialist countries joining European Union. The theoretical and methodological foundation is rooted in GLOBE international research project. Our findings revealed that at practices level, Romanians perceive significant higher Power Distance and significant lower mean value for Uncertainty Avoidance. At the expectations level, the Romanians and Slovenians are very similar in the desire concerning their societies orientation toward In group/Family Collectivism, Assertiveness and Performance Orientation, and record significant differenced in all the other societal values. The fact that for all the cultural expectations the future managers assign different mean values than for the correspondent practices make us expect that they will act to change their cultural environments. Still, the cultural orientation of Romanian future middle managers will differ in many regards from the Slovenian sample averages.*

Keywords: *societal culture, cultural practice, cultural value, Romania, Slovenia*

JEL clasification: *M14, M19*

1. Introduction

Starting from GLOBE international research project dealing with top and middle managers, GLOBE STUDENT project was initiated (2008)³⁴, aiming at targeting *future* managers, to be recruited mostly from today's students in business and engineering. One of its objectives is to determine the *profile* of future managers from their perceptions on and expectations about societal culture dimensions point of view. *The main research question concerns the similarities and*

differences between the Romanians with the average future manager in Slovenia. The reason we have chosen to compare Romanian sample with the cultural profile of the "average" future manager from Slovenia is the scientific curiosity of finding out if there are signs of cultural convergence of Romania with a previous communist country, and an older member of European Union. In doing so, our study will hopefully broaden the body of knowledge about the cultural convergence (or divergence?) between the former socialist countries joining European Union. Specifically, we will try to answer the following *research questions:*

1. Which are (if any) the significant differences between Romanian

³⁴ The project is co-ordinated by R. Lang from Chemnitz University of Technology. The data for Slovenia has been collected by D. Pucko and T. Cater (University of Ljubljana)

students perceptions of current societal practices and those of students from Slovenia?

2.How do Romanian students' societal values (expectations) differ (if) from those of students from Slovenia?

2. Theoretical background

As known, there is no single generally accepted definition of societal culture (Chhokar et al, 2007:3). Our study shares the definition used by GLOBE international research project: “shared motives, values, beliefs, identities and events that result from common experiences of members of collectives and are transmitted across age generations” (House et al., 2002: 5). The GLOBE project distinguishes between *practices* (“as it is”) and *values* (“as it should be”). Values distinguishing a culture from the others are predictors for cultural practices, as well as for leadership features and behaviours in that culture (House et al. 2002). In all societies, the shared values become good predictors of *future practices*.

GLOBE project operationalised culture in nine *dimensions*: 1) Uncertainty Avoidance; 2) Future Orientation; 3) Power Distance; 4) Collectivism I (societal collectivism); 5) Humane Orientation; 6. Performance Orientation; 7) Collectivism II (in-group collectivism); 8) Gender Egalitarianism; 9) Assertiveness (House et al., 2002: 5-6). As the GLOBE researchers acknowledge (House et al., 2002: 6), the first six dimensions are rooted in cultural dimensions defined originally by Hofstede (1980), Future Orientation and Humane Orientation from Kluckhohn & Strodtbeck (1961), Putnam

(1993) and McClelland (1985), while Performance Orientation from McClelland (1985). Short definitions of these cultural dimensions are given in GLOBE related book (House et al, 2004:3).

Our research compares the cultural foundations of prospective managers and leaders in Romania and Slovenia. The findings about the students' expectations about societal culture are helpful in imagining the societal culture in its *dynamics*. Accepting that values “high in centrality, pervasive, and supported by powerful sanctions and high consensus and supporters of these values hold positions of high prestige and authority” (Williams 1979: 34) are resistant to change, we also are aware that they change especially when one generation succeeds another (Keating et al., 2002: 637).

3. Methodology

GLOBE student project uses the section 1 (*as it is*) and, respectively, section 3 (*as should be*) GLOBE research *Beta* questionnaires (House et al., 2004) with some modifications required by the subjects' nature (students). Scales in section 1 ask the students to value “the way our society is” (practices), while scales in section 3 ask the students opinion about “the way our society should be” (values) using a seven points Likert scale. The surveys were carried out in either 2008 or the first half of 2009. The respondents are enrolled at the Technical University of Cluj-Napoca, Babes-Bolyai University (Cluj-Napoca) and Petru Maior University in Targu-Mures (Romania) and at University of Ljubljana (Slovenia). Table 1 shows the joint sample structure of our respondents, which gave us usable data.

Table 1: Sample structure

Country of origin	What subject area/ study path do you study?		
	Business/ Economics	Engineering	Total
Romania	166	261	427
Slovenia	150	150	300
TOTAL (valid answers)	316	411	727

Collected empirical data has been processed with SPSS 17. Descriptive statistical analysis was carried out separately for Romanian and Slovenian sample. In comparing Romanian sample with the Slovenian one, the *independent samples t-test* was used, with 0.05 significance threshold.

4. Findings

The research findings concern: 1) differences between Romanian and Slovenian students' perceptions of current cultural *practices*; 2) differences between Romanian and Slovenian

students' *expectations* concerning societal values.

4.1. Differences in perceptions: Romanian vs. Slovenian students

Table 2 displays the significant differences between Romanian and Slovenian sample with respect of perceptions of societal culture *practices*, while the differences between the mean values of perceptions on cultural practices in Romania and Slovenia are displayed in Figure 1

Table 2. Significant differences in cultural practices: Romania vs. Slovenia

Cultural practice ("society as it is")	Romania	Slovenia	Absolut differences	t-test (sig 2-tailed)
<i>Uncertainty Avoidance</i>	3.49	4.19	- 0.70	- 11.617 (0.000)
<i>Future Orientation</i>	3.44	3.79	- 0.35	- 4.659** (0.000)
<i>Power Distance</i>	5.81	5.03	0.78	12.306** (0.000)
<i>Collectivism I (Institutional)</i>	3.78	4.04	- 0.26	- 3.920 (0.000)
<i>Humane Orientation</i>	3.83	3.97	- 0.14	- 2.204 (0.028)
<i>Performance Orientation</i>	3.66	4.05	- 0.39	- 5.089 (0.000)
<i>Collectivism II (in group)</i>	5.13	5.22		(0.175)
<i>Gender Egalitarianism</i>	3.99	4.13	- 0.14	- 2.427** (0.016)
<i>Assertiveness</i>	3.51	4.24	- 0.73	- 10.587** (0.000)

95% confidence; *two independent samples; ** equal variances not assumed

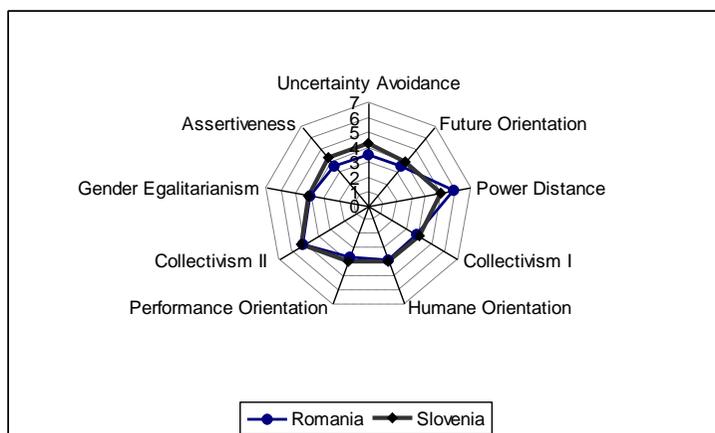


Figure 1. Differences in perception of cultural practices: Romania vs. Slovenia (mean scores)

T-test of differences between the mean scores (two independent samples) shows that the Romanians perceive significant higher Power Distance ($t = 12.306$; $sig = 0.000$) than the Slovenians (equal variances not assumed). Significant lower mean values are recorded by Romanians for (decreasing order): Uncertainty Avoidance ($t = -11.617$; $sig = 0.000$), Assertiveness ($t = -10.587$; $sig = 0.000$), Performance Orientation ($t = -5.089$; $sig = 0.000$), Future Orientation ($t = -4.659$; $sig = 0.000$), Institutional Collectivism ($t = -3.920$; $sig = 0.000$), Gender Egalitarianism ($t = -2.427$; $sig = 0.016$) and Humane Orientation ($t = -2.204$; $sig = 0.028$). The lack

of significant differences for Collectivism II (In group/Family) might be interpreted as a convergence in practicing tight relationships within membership group in both countries.

4.2. Differences in expectations: Romanian vs. Slovenian students

The data in Table 3 summarized the significant differences between the most appreciated cultural values by the future managers and leaders in the Romanian and Slovenia and the “spider” in Figure 2 reveals the differences between the average score of cultural expectations (values) in Romania and Slovenia.

Table 3. Significant differences in societal values: Romania vs. Slovenia (mean scores)*

Cultural value (“society as it should be”)	Romania	Slovenia	Absolut differences	t-test (sig 2-tailed)
Uncertainty Avoidance	5.10	4.55	0.55	9.427 (0.000)
Future Orientation	5.23	4.74	0.49	6.781 (0.000)
Power Distance	2.65	2.94	-0.29	-3.737 (0.000)**
Collectivism I (Institutional)	4.94	4.46	0.48	7.069 (0.000)**
Humane Orientation	5.41	5.08	0.33	4.887 (0.000)**
Performance Orientation	5.89	5.78	0.11	(0.068)
Collectivism II (in group)	5.70	5.69	0.01	(0.824)
Gender Egalitarianism	4.42	4.55	-0.13	-2.384 (0.011)**
Assertiveness	4.01	4.09	-0.08	(0.186)

*two independent samples; ** equal variances not assumed

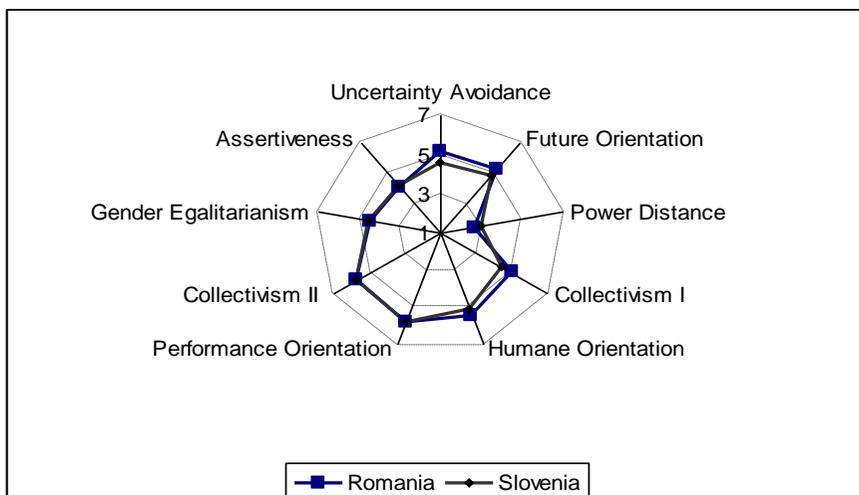


Figure 2. Differences between average scores of cultural expectations: Romania vs. Slovenia

As seen, there is no (or very low) difference between the mean scores ($p < 0.05$) of the compared samples expectations concerning Collectivism II, Assertiveness and Performance Orientation. Romanians expect significant higher Uncertainty Avoidance ($t = 9.427$; $\text{sig} = 0.000$), Collectivism I ($t = 7.069$; $\text{sig} = 0.000$), Future Orientation ($t = 6.781$; $\text{sig} = 0.000$), and Humane Orientation ($t = 4.887$; $\text{sig} = 0.000$) than the Slovenians. The highest statistically significant difference is related to Uncertainty Avoidance. Significant lower expectations are recorded by Romanians for Power Distance ($t = -3.737$; $\text{sig} = 0.000$) and Gender Egalitarianism ($t = -2.384$; $\text{sig} = 0.011$). Given the mentioned findings can be argued that *some* Romanian cultural values (expectations) are convergent with the Slovenian ones (desire for higher performance concern of society, tighter relationships with the membership groups and stronger Assertiveness in defending/arguing own position). Even though the identified changes in cultural dimensions will occur in the future, we cannot speak about a *complete* harmonization of culture in the two countries under study.

5. Discussions and conclusions

The Romanians perceive actual cultural *practices* in their environment differently from Slovenians, with the highest difference for Uncertainty Avoidance (Romanians perceiving their society not being enough concerned with creating a stable legal, political and economic environment or with long term planning). Hofstede found in his research (Hofstede, 2002: 100) a very high level of Uncertainty Avoidance (mean score 6.16) in the Slovenian environment, while for Romania he estimated an index of 90 (http://www.geert-hofstede.com/hofstede_dimensions.php), suggesting that in the past socialist environment, the managers worked in a culture with a very high Uncertainty Avoidance. The GLOBE study identified a mean score of 3.78 for Uncertainty Avoidance for Slovenian

practice, and a GLOBE type study performed on 216 Romanian middle managers, got to an average score of 3.92 for this cultural dimension (Catana & Catana, 2011). This shows that the processes of transition to the market economy brought “turbulences” in the “traditional” way of heaving someone taking care of things (through central planning in the case of Romania). The lowest difference is recorded for Humane Orientation (Romanian mean value, higher). Based upon these findings, cannot speak about a convergence in cultural practices perception.

Both samples display higher mean values for all nine cultural dimensions at *expected* level, except Power Distance in both samples and Assertiveness in Slovenian sample. Our findings show the Romanians and Slovenians are *very similar* in their desires concerning their societies orientation towards In group/Family Collectivism Collectivism II), Assertiveness and Performance Orientation. These findings might reveal a certain *harmonisation* of cultures within the compared countries. The highest significant (positive) difference between the samples is recorded for Uncertainty Avoidance, showing the Romanians desire to increase in a higher degree than Slovenians, the level of certainty in their society, including the long term planning. The lowest significant (positive) difference concerns Humane Orientation, revealing that the two samples record the same trend, towards paying more attention to encouraging and rewarding fairness, altruism, friendship, generosity, kindness and promoting altruistic ideals. Significant (negative) differences are recorded in expectations concerning Power Distance and Gender Egalitarianism. These two expectations reveal other “avenues” towards increasing the convergence in cultural values and future cultural practices (if the subjects holding such values/expectations will become managers and transform them in societal practices). Although according to institutional theory, changes in the more culturally

embedded elements of management, seem to be more difficult to achieve (Lang/Steger 2002), the fact that for all the cultural *values* the future managers assign different mean values than for the correspondent practices make us expect that they will act to change their cultural environments. Still, the cultural orientation of Romanian future middle managers will differ in many regards from the Slovenian sample averages.

We are aware that our research findings have a few limitations, among which the assumption that business and engineering students will become a core part of the future population of managers. Beyond the limitations, we believe that our findings offer certain insights into relevant issues for researchers, academics and consultants in management and leadership, as well as for today's practitioners, especially related to culture dynamics in the region. The dissemination of our research findings among active managers, researchers, academic staff and management consultants may contribute to improving the management training of students, as well as the management practices in Europe. Future research should focus on studying cultural practices and value systems in directions like possible differences in respondents' relevant perceptions based on subjects demographic characteristics (age, gender, field of study, major subject etc.). In addition, comparisons could be making with other countries taking part to GLOBE student project.

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EXPLANATORY ECONOMETRIC METHOD FOR THE ANALYSIS OF THE BEHAVIOR MANAGEMENT IN ORGANIZATIONS IN ROMANIA - GUIDE FOR DEVELOPING THE PILOT STUDY

Research coordinator:

Roșca Constantin
SSMAR

Research team:

Roșca Doina - University of Craiova, Faculty of Horticulture
Manolescu Adriana - Agora University of Oradea
Roșca Adrian - University of Craiova, Faculty of Mechanics
Dodescu Anca Otilia - University of Oradea
Abrudan Maria Madela - University of Oradea
Dănăiață Doina - West University of Timișoara
Sîrbu Mirela - University of Craiova, Faculty of Economical Sciences
Negulescu Cristian - "Spiru Haret" University of Craiova
Dragomir Laurențiu - University of Craiova, Faculty of Economical Sciences
Judeu Viorina Maria - Agora University of Oradea
Morariu Alunica - University "Ștefan cel Mare" Suceava
Lukas Edit - University "Dunărea de Jos" Galați
Cîrnu Doru - University "Constantin Brâncuși" Târgu Jiu
Morărașu Irina - High School "Carol I" Craiova

Abstract: Our paper, entitled "Explanatory Econometric Method for the Analysis of the Behaviour Management in Organizations in Romania" reflects the wide opening of econometric modelling to quantify the Romanian management issues, representing a practical guidance on multiple recovery plans to fund the huge data collected as part COMOR project launched by the Scientific Society of Management in Romania to characterize the behaviour of managers in the Romanian economic organizations. Construction of these models offers possibilities for complex analysis, descriptive and factorial sequence of firms, counties, geographical areas, but comprehensive summary of studies on the macroeconomic level. Scientific knowledge through a comprehensive assessment of managerial behaviour in the most representative types of business organizations of all geographical areas of the country are, in the context of globalization, one way to prevent surprises market economy. Thus, the results of this exploratory research will provide economic environment, and not only strong argument for anticipating decisions in order to choose the best economic policies, with beneficial effects as conclusive and with as few undesirable implications. Research based on the opinions of thousands of respondents approved, processed through a variety of instruments subject of extensive econometric and interdisciplinary interpretation, psycho-socio-economic management, is a modest contribution to the affirmation of local scientific research that aim for theoretical and applied Romanian school of management by defining:

- knowledge of behaviour management in all types of business organizations in Romania;
- identifying the Romanian space dimensions of organizational culture as a reflection of the peculiarities of national culture and especially of the main ethnic-specific subcultures;
- profile defining effective manager and leader of excellence in terms of character traits and their behaviour.

Keywords: econometrics, management, organizational culture, descriptive analysis, factorial analysis.

Coduri JEL: M12

1. Preamble

Without proposes to develop the defining elements of econometrics, the specific features of this scientific field in relation to statistics, mathematical statistics or in the preamble of our approach using econometric method in an exploratory research on behaviour management in large scale economic organizations Romania, makes some-option argument on the use of econometric indicators to quantify the value judgments of various socio-economic variables of our research.

According to this, we refer to adopt the following key behaviours of econometrics, the study undertaken in this specific case, namely:

- factual component that the specific area under investigation is a reality of management processes in a well defined geographical area: economic organizations in Romania as the unit of observation, that respondents from these organizations as units of sampling;
- conceptual component of economic management for the dimensions of

organizational culture, specific types of managerial behaviour different subcultures of the Romanian space and effective leader and the typology of excellence;

- logical-formal component that we built quantitative models and rational behaviour on different sides of managerial and calling their methods inferential statistics (theory and theory tests estimate) that draw a general conclusion from the quantitative analysis of several private facts I checked the assumptions made in terms of management theory in general and human resource management theory in particular.

2. The construction of econometric models

Depending on the scale and complexity of research, but also the degree of deepening the analysis, econometric models used in research as set out above as shown in Fig. 1 managerial explanatory models are composed of a more or less complex input variables, a process of transformation of probability distributions mathematically range of views expressed by the exponents, a set of variables leads to the result (the outputs).

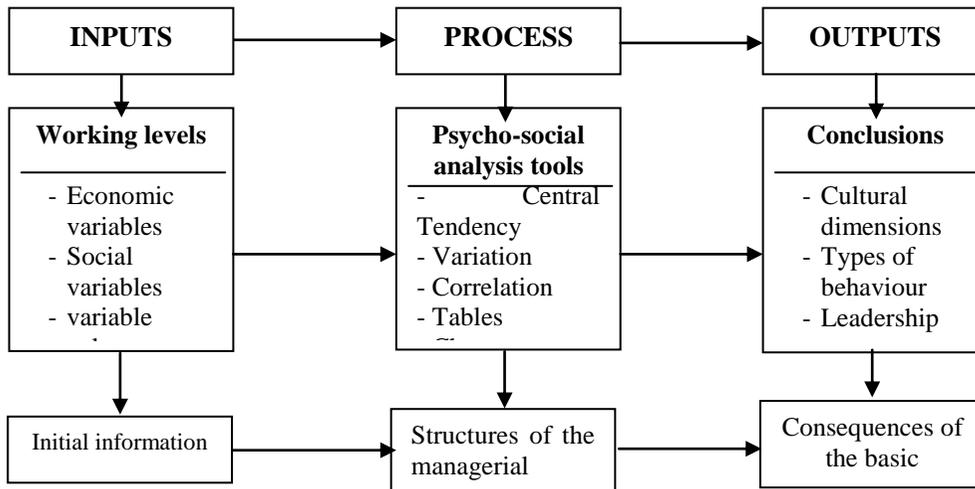


Fig. 1 The systemic structure of the econometric model

Building models based on the initial capitalization of knowledge in the context of econometrics integrated knowledge management and organizational psycho specific limits of investigator.

Assumptions that formed the basis for models reflect the volume and quality of information we had about the reality investigated using the following input variables:

- *economic variables* of the statistical units of observation of the firms: the field of activity according to CAEN code, size of organization based on the number of employees, ownership of equity;

- *social variables* of the statistical unit surveyed (respondents): sex, age, marital status, level of schooling and education in management, the position in the organizational hierarchy (managers, performers);

- *variable value judgments*, those measurable by designating entities beach views expressed, and which were assigned numerical values on the scale from highly positive (strongly agree) to highly negative (disagree).

The information held in the observation data was processed using the managerial structure of the variables of a system of statistical and mathematical indicators consisting of: position indicators (weights), indicators of central tendency (arithmetic mean, median, modulus and asymmetry); indicators of change (amplitude variation, individual deviation, standard deviation, the dispersion, coefficient of variation); indicators correlation (regression coefficient, correlation table, the correlation chart).

The conclusions derived through econometric models are logical consequences of assumptions underlying the inferential analysis process allowed the release of initial information content of their dormant state to highlight the following variables outcome (output):

- dimensions of organizational culture: power distance, individualism-collectivism,

- masculinity-femininity, uncertainty avoidance, future orientation (long-short);

- types of managerial behaviour: management approach, work style, attitude toward change, policies and practices of motivation, organizational communication procedures and practices, and / or interpersonal, concern for performance;

- behavioural profile of character and effective leader;

- typology of excellence leader.

3. The econometric method, basis for analysis

Ultimately seeking a comprehensive and as accurate characterization of the different structures of management variables, we focused our approach on two lines of analysis: a *quantitative analysis* focused on value judgments, on the one hand by the statistical units of observation (firms), and secondly by statistical sampling units (respondents) and the second direction oriented *qualitative analysis* with indicators of variation and correlation.

The two types of correlation analysis (quantitative and qualitative) we decided to identify and characterize managerial behaviour in key areas of economic activity across different subcultures of the Romanian territory and into the major temperamental traits of different managers and executors geographical areas of the country.

To meet this requirements-goal, we adopted a systemic approach, whereby we develop an analysis stratified by different levels of aggregation (system elements) as follows:

- for large enterprises at the microeconomic level (on request);

- mezo-economic level with aggregated counties, regions and macro-economic development;

- at the macroeconomic level, with conclusions on the national economy.

3.1. Descriptive Analysis

The quantitative analysis (descriptive) was used in structure relative sizes (weights) calculated as percentage ratio to the whole party, namely:

$$p_{\%} = \frac{\text{part}}{\text{whole}} \cdot 100$$

With the help of weights, which are indicators of position, it is argued:

- a) representativeness of the total economic organizations observed, reflecting the domain structure of economic activity (agriculture, mining, manufacturing, construction, transport, trade, etc.), by the degree of size (50-100 employees, 101-250, 251-500, over 500 employees), by type of capital ownership (public, private);
- b) the reliability of judgments of value (total agreement, partial agreement, indecision, partly disagree, strongly disagree) expressed by respondents in different social variables (gender, age, education, hierarchy within the organization) for each item (question) that characterize a specific variable Managerial dimensions of organizational culture, managerial behaviour, characteristic traits of leadership.

3.2. Factorial Analysis

Unlike the descriptive analysis, in which we used a single indicator, one that characterizes

the position of a given quantitative variable (part) throughout the community studied, *the factor analysis* we made use of a true system of indicators with which we managed many sides to put out quality of managerial behaviour in its various aspects.

Without abusing detail on the material we present a brief overview of these indicators, their relationships with computers and how to use the process to review the research, according to the valence of each of them. Thus, the system of indicators that I did not use the factor analysis, is composed of: measures of central tendency, simple indicators of change, synthetic indicators of variation, correlation indicators.

3.2.1. Specification

Before developing each indicator used in factor analysis, we make two methodological notes:

1. Calculating each of the indicators that are part of the groups mentioned above, a process required to convert the numeric expression value judgments on a Likert-type scale. Thus, depending on the range of value judgments provided by the construction of the questionnaire respondents used the primary data collection, conversion was done on 5, 3 or 2 levels, as in the models below:

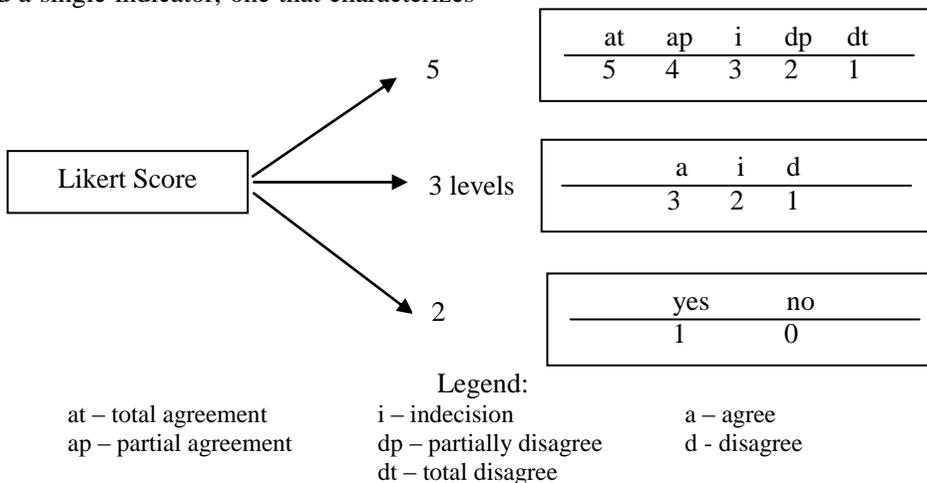


Fig. 2. Model of conversion of opinions to numerical expressions

2. To measure respondents' opinions on a particular variable studied, we started from the premise that people are honest in expressing their beliefs and opinions, however, to arrive at generalized conclusions, we have relied on a single question.

Therefore, for each variable outcome (dimensions of organizational culture, behaviour management, effective leader or typology profile leader of excellence), the questionnaire applied, we have formulated a set of questions that allow us to establish the position of respondents to a variable or another. For example, to measure the cultural dimension "individualism - collectivism" were formulated 16 questions, or to characterize the size of "masculinity - femininity" were used six questions etc.

3.2.2. Indicators of central tendency

From this group of indicators have appealed to the mean, median and dominant module. These indicators, allowed us to put out the essential trends of the variability of responses to the questions in the questionnaire. Thus, **the mean value** (\bar{x}), as a synthetic expression levels of individual value judgments embodied in a single representative level, which highlights the average scores of opinions expressed by respondents to each question in questionnaire responses from the entire range of intensely positive the intensely negative, was calculated as a weighted arithmetic mean formula:

$$\bar{x} = \frac{\sum_{i=1}^n x_i f_i}{\sum_{i=1}^m f_i}, \text{ where :}$$

\bar{x} - means medium value;

x_i - Spectrum opinions expressed on the scale of values (i) from 1-5;

f_i - the number of respondents, m , varying according to the level of aggregation: business, county, region developing, country.

The median (Me) is the average score occupying the central place statistical series ordered in ascending or descending, so the average scores of the series number of values which divides into two equal parts. When the series has an odd number of terms, the median score is given by the rank $\frac{n}{n+1}$;

where the series has an even number of terms, the median is given by the central terms of simple arithmetic.

Statistics compiled for each question series that helps to characterize a variable result, has different meanings depending on the content and the level at which lies such analysis:

- at the firm level, the series is comprised of average score of the views expressed by each respondent;

- at the county level, the average score is made up of the views expressed by the average sample firm in each county;

- development in the region, the average mean score of opinions expressed by counties comprising the region's development.

At any level of aggregation, median highlights the question that was most meaningful significance to characterize the result of research variable. It is important, in terms of theory, construction of the questionnaire in future research.

Module (Mo) or dominant frequency is the value that has score greater.

Is determined using the statistical series as the median scores obtained by highlighting the tendency of respondents to a particular judge stated value of the spectrum: from highly positive to highly negative, and from total acceptance to total rejection.

Asymmetry (As) is the indicator that allows us to know the degree of skew or non symmetry dimensional distribution of symmetry, from the position and values of the indicators of central tendency: mean, median and the module.

Form distribution with left and right asymmetry can be analyzed either by using

graphical methods or calculating indicators of asymmetry.

Graphical representation of statistical series provides a suggestive picture of the degree of asymmetry using, on a case by case frequency polygon and histogram.

Indicators of asymmetry are expressed both in absolute size and in relative sizes. Asymmetry is calculated absolute relationship:

$$As = \bar{x} - Mo$$

To make comparisons between statistical series resort to indicators of asymmetry relative. Among them, we stopped at what is called the asymmetry coefficients authors: Pearson and Yule.

Pearson coefficient of asymmetry (C_{as}) is calculated using the formula:

$$C_{as} = \frac{\bar{x} - Mo}{\sigma}$$

This coefficient can take values between -1 and +1, as the absolute value is less than the Pearson coefficient, the asymmetry is smaller. The value of this coefficient has the following meanings:

$C_{as} = 0$ symmetry means the terms of the series;

$C_{as} > 0$ distinguish a left skewed distribution;

$C_{as} < 0$ we deal with a distribution skewed to the right.

Yule asymmetry coefficient (C'_{as}) is calculated in cases where we determined the median statistical series (Me), using the formula:

$$C'_{as} = \frac{3(\bar{x} - Me)}{\sigma}$$

Yule coefficient can take values between -3 and + 3 and used when between three measures of central tendency relationship is verified:

$$\text{Module} = \text{Average} - 3(\text{Average} - \text{Median})$$

Coefficient will show a higher degree of symmetry as will be closer to zero.

3.2.3. Indicators of change

If our research, the value judgments expressed by different respondents, more or less with each other, may be more or less scattered close to the average score, regarded as the most representative value for the research unit (sample taken enrolment).

These indicators allow us to characterize the degree of homogeneity or opinions expressed in the scattering of a social group in general (at the company, county, geographic area, etc.), as well as some of its structures (gender, age, education, hierarchy).

In this group of indicators of change there are two groups: simple indicators of change (amplitude variation, e.g. individual deviations) and synthetic indicators of variation (standard deviation, the dispersion, coefficient of variation).

With these indicators we develop the analysis at different degrees of depth, allowing us to put some light on the qualitative side of the value judgments expressed by respondents.

Amplitude variation (A) is the indicator by which, in-depth analysis, especially analysis of the company or the county, determine the differences between extreme values of the views expressed by respondents. The amplitude of variation is greater, the opinions are different, and vice versa. It is expressed in two forms: absolute amplitude (A_a) and relative amplitude ($A_{\%}$), relationships with the following calculation:

$$A_a = x_{\max} - x_{\min}$$

$$A_{\%} = \frac{A_a}{\bar{x}} \cdot 100$$

represents the opinions score; \bar{x} – means value scores

Individual deviations (d_i) are calculated as the difference between each variation recorded (score value judgments) and their arithmetic means (average score), using equations:

$$d_a = x_i - \bar{x} \text{ for individual absolute}$$

$$\text{deviations; } d\% = \frac{d_a}{\bar{x}} \cdot 100 \text{ for individual}$$

absolute deviations

It is mainly used in the analysis at the firm level, and only exceptionally in the county.

Standard deviation, standard deviation or standard deviation (σ) is calculated as the average squared deviations of the score recorded for each item determined opinions characterizing variable outcome (dimensions of organizational culture, behaviour management, etc.) from their arithmetic mean. To this end we used the relationship:

$$\sigma = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2 f_i}{\sum f_i}}$$

Thus, using this indicator consider how the respondents opinions vary on the scale of value judgments (from *at* to *dt*) calculated from the average of each variable result.

Example:

Variable result sought: Behaviour managers in different situations.

Faces situational managers:

1. Attitude towards settling tensions/conflict in the workplace.
2. Attitude towards the expression of the performers, opinions about their work address.
3. Attitude towards mistakes by employees during the activities.

Number of statistical units of observation in Suceava County = 15

Number of statistical sampling units (respondents) = 222

Based on data from Appendix 1, Table present standard deviations below the mean score calculated from the views expressed by respondents to characterize both the current state and considered to be normal in the organizations surveyed.

Managers' behaviour in different situational

Analysis indicators	Symbol	Current practice	Desired practice
1. Average value judgments	\bar{x}	3,727	4,183
2. Standard deviation	σ	0,258	0,279

Summary interpretation of these indicators leads to the following conclusions:

1. Almost $\frac{3}{4}$ of respondents say that current practice managers are interested in maintaining a spirit of understanding and cooperation between employees and are involved as mediators between the parties when there are situations of tension or conflict, are open to collaboration in the team encouraging employee participation in solving practical service problems and is also tolerant of the mistakes they inadvertently committed during the activities.
2. Value judgments expressed by respondents is quite high values clustered around (partly agree to strongly agree).
3. Despite the favourable findings about the behaviour of managers in the three situational instances, the number of respondents who believe it would be better place, is almost 10% higher than the existing situation (83.7% vs. 74.5%).

A hierarchy of employees who desire signifies a strong attachment to the goals of the organization is working is as follows:

- 86.3% (11.8% more than the current situation) believes that managers should make greater use of employee participation with solutions to solve the tasks;
- 89% (8.1% more than the current situation) believes that managers should intervene more effectively and to ease tension or conflict between state employees;
- 75.7% (7.4% more than the current situation) believes that managers should be more sympathetic to unintentional mistakes committed during the activities, especially by young people who need more support to their immediate bosses.

4. Even if the range of value judgments is somewhat higher in practice desired by respondents, (standard deviation 0.279 to 0.258) shows that the average score is 12.2% higher than the current practice, which means that "total agreement", the whole scale of assessment is crucial.

Dispersion or variance σ^2 a variable result is calculated with a simple arithmetic average of the squared terms of statistical series which consists of questions score variable that is characterized by the relationship:

$$\sigma^2 = \frac{\sum_{i=1}^n (x_i - \bar{x})^2}{n}, \text{ where } n \text{ is the number}$$

of items that characterize each variable outcome (dimension of organizational culture, types of managerial behaviour etc.).

The coefficient of variation (v) is the ratio between the average standard deviation and statistical series, and shows us the degree of homogeneity of the collectivity of questions / answers that characterize a variable outcome, using the relation:

$$v = \frac{\sigma}{\bar{x}} \cdot 100$$

The higher the coefficient of variation is close to zero, the variance is lower, so statistical collectivity is more homogeneous and the media has a higher level of significance.

3.2.4. Indicators of correlation

In our research we are dealing with direct factorial correlations, simple linear type, which led us to make use of the following indicators of intensity commensurate factorial causal links between variables symbolized by x_1, x_2, \dots, x_n and the variable outcome or effect variable y symbolized: the correlation table, the graphic method and the regression coefficient.

With the **correlation table** identifies issues such as: the existence and meaning of correlation, the shape and intensity of causal links. Thus, we use the correlation table analysis of causal links between traits of

character which designates the profile of the effective leader, the variables x and types of managerial behaviour, the variable result. So, for example, may reveal the correlation between some features of the leader, such as courage, self-confidence, will, its rigor on the one hand, his attitude toward change, on the other side.

Corelograma as a graphic expression of the correlation, is constructed as follows: the abscissa scale is going to represent the values of variable x factorial, and the ordinate y pass variable values result by uniting intersection points of coordinates x, y , is obtained expressing corelograma suggestive correlation that we want to highlight in particular.

Regression coefficient. As a method of econometrics, regression helps to determine the contribution of the factors underlying (causative) effect of variability phenomena. Since in our research are linear causal links, to measure the strength of correlation using linear function of the form:

$$Y_x = a + bx, \text{ where}$$

Y_x - are theoretical variables; $a - y$ result variable values are determined outside the influence of variable x factorial;

b - is the regression coefficient;

x - represents the values of x_1, x_2, \dots, x_n factorial of variable x .

The coefficients a and b is determined using ordinary least squares method, using relations:

$a = \bar{y} - \mu_{u(x)}$, where: $\mu_{u(x)}$ represents the first order centered factor for variable x . It has zero value.

$$b = \frac{\sum xy}{n\sigma_x^2}, \text{ where: } x - x_i \text{ variants are}$$

deviations from their average

$y - y_i$ variants are deviations from their average

In our research we measure the linear correlation between the intensity of respondents' social variables (gender, age, marital status, education level, the position in

the organizational hierarchy), as variable factors and value judgments, as a floating effect. Thus, we build correlation coefficients entering the following notation for the variable factor x:

Sex: male x_1 , female x_2

Age: 30 years x_1 , 30 - 44 years x_2 , between 45 - 60 years x_3 , x_4 over 60 years

Education: elementary x_1 , x_2 environments, beyond x_3

Hierarchy: top managers x_1 , x_2 middle managers, managers of basic x_3 , x_4 performers.

Similarly, we introduce the following notation for the variable y result (value judgments about the dimensions of organizational culture, types of managerial behaviour, effective leader profile, types of Excellence leader):

Total agreement

y_1

Partial agreement

y_2

Indecision y_3

Partial disagree y_4

Total disagree y_5

or

agreement y_1

indecision y_2

disagree y_3

Conclusions

The models described in this paper is the set of indicators is based on an econometric variety of descriptive and factor analysis, structural and managerial behaviour in comparative economic organizations in Romania. Among them were:

- to characterize the dimensions of organizational culture at all levels of

aggregation: the big companies, counties, regions, macro, national economy;

- characterization of managerial behaviour in all types of business organizations by field of activity according to CAEN code, by type of ownership of capital, depending on their size as number of employees;

- description of character and behavioural profile of the effective manager;

- characterization of the leader of excellence;

- according to various categories of respondents (by sex, age, education, hierarchy) on the various elements listed above characterization etc.

These econometric models, with minimal possibilities for the interpretation of measured results are used in the study phase of the pilot - the example of Suceava county, to develop national analysis by established analytical team in Bucharest, Craiova, Oradea, Suceava, Targu Mures, Galati, Resita, Braşov most competent scholars with interests in management, sociology and organizational psychology, computer science, econometrics.

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Annex 1

Elements of synthetic indicators of change,
based on scores from 1 (strongly disagree) to 5 (strongly agree)

Actual practice

Item	Score x_i	Respondents f_i	$x_i f_i$	$x_i - \bar{x}$	$(x_i - \bar{x})^2$	$(x_i - \bar{x})^2 f_i$
51	4,045	222	897,95	0,318	0,101124	22,4495
53	3,725	222	826,95	-0,02	0,004	0,0888
64	3,412	222	757,46	-0,315	0,0992	22,0224
Total	\bar{x} 3,727	*	$\sum x_i f_i$ 2482,36	*	$\sum (x - \bar{x})^2$ 0,200724	$\sum (x_i - \bar{x})^2 f_i$ 44,5607

$$\sigma^2 = \frac{\sum (x_i - \bar{x})^2}{n} = \frac{0,200724}{3} = 0,0669;$$

$$\sigma = \sqrt{\frac{\sum (x_i - \bar{x})^2 f_i}{\sum f_i}} = \sqrt{\frac{44,5607}{666}} = 0,258$$

$$v = \frac{\sigma}{\bar{x}} \cdot 100 = \frac{0,258}{3,727} \cdot 100 = 6,9\%$$

Desired practice

Item	Score x_i	Respondents f_i	$x_i f_i$	$x_i - \bar{x}$	$(x_i - \bar{x})^2$	$(x_i - \bar{x})^2 f_i$
51	4,450	222	987,90	0,267	0,071289	15,8262
53	4,315	222	957,93	0,132	0,002299	0,5106
64	3,784	222	840,05	-0,399	0,159201	35,3426
Total	\bar{X} 4,183	*	$\sum x_i f_i$ 2785,88	*	$\sum (x - \bar{x})^2$ 0,232789	$\sum (x_i - \bar{x})^2 f_i$ 51,6794

$$\sigma^2 = \frac{\sum (x_i - \bar{x})^2}{n} = \frac{0,232789}{3} = 0,0776; \quad \sigma = \sqrt{\frac{\sum (x_i - \bar{x})^2 f_i}{\sum f_i}} = \sqrt{\frac{51,6794}{666}} = 0,279$$

$$v = \frac{\sigma}{\bar{x}} \cdot 100 = \frac{0,279}{4,183} \cdot 100 = 6,67\%$$

Annex 2

Content questions to characterize the behaviour of managers in different situations

				Opinion score \bar{x}
Q51	If a state of tension or conflict, managers	Pa	work for reconciliation through dialogue with those involved	4,045
		Pd	should work for reconciliation through dialogue	4,450

				Opinion score \bar{x}
Q53	To impose their views in solving work tasks, employees	Pa	by managers are encouraged to respect the opinions of others	3,725
		Pd	should be encouraged by managers to respect the opinions of others	4,315

				Opinion score \bar{x}
Q64	Compared mistakes during their work, managers	Pa	are sympathetic (tolerant)	3,412
		Pd	Should be sympathetic (tolerant)	3,784

THE NEED FOR PUBLIC DEBT MANAGEMENT IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT WITHIN THE EUROPEAN UNION

Marcu Nicu

University of Craiova, Faculty of Economics and Business Administration

Meghișan Mădălina Georgeta

University of Craiova, Faculty of Economics and Business Administration

Public debt is created when the necessary resources for the socio-economic development of a state are greater than the opportunities that exist at that time. The destination of the necessary resources acquired from foreign markets can be either consumption by raising the standard of living (on short term) or investments in order to reduce the discrepancies in relation to the European Union through investments in infrastructure, jobs, human and technical capital development.

The scientific research aims to clarify several key objectives, namely: the theoretical concept and its belonging in the governance politics; the dynamics of public debt in Romania and the identification of specific features of the indebtedness decision, the influence of the current global economic crisis on the Romanian economy, the analysis of Romania's public debt sustainability integrated in the European structures, and proposals for action in order to return as soon as possible to a positive economic dynamics with direct impact on people's standard of living.

The theme of this research is contemporary in the context of the financial and economical global crisis and the difficulties in overcoming this period. The need to coordinate the fiscal and budgetary policies in Romania, the awareness that the accumulation of a large public debt presents a threat to future generations, the increase of the tax pressure over a market that trends towards globalization and the impact that the aging of the population will have on the public finances sparked public controversy, both in the academic environment and in the media. To continuously borrow resources and maintain a stable level for them requires a sustainable public debt, an important objective of any state's tax policy. A sustainable public debt is the result of the market and of the fiscal and budgetary policy decisions.

Although the sustainability of public finances and implicitly of public debt has been an issue extensively debated for over a century, they currently remain vague concepts. Although, intuitively, it is natural to consider that a fiscal policy is sustainable if it avoids financial collapse, there is no generally accepted definition in terms of sustainable public debt, respectively a sustainable level of public debt. The methodology of this research is stressed by the large number of statistical data on public debt dynamics used in the analysis, relevant in this regard are the national and international databases: the National Bank of Romania, Ministry of Public Finances, World Bank, Euro stat, the statistical database of the European Commission, the database of the International Monetary Fund, the Organization for Economic Cooperation and Development, the normative documents consulted in order to ensure the terminological accuracy of the concepts, the numerous theoretical and empirical studies of Romanian and foreign specialists, the views and arguments of scientific researchers with high experience in the field.

The personal contribution to the researched field is present throughout this work. Thus, I aimed to clarify some theoretical aspects of the issues addressed, of some concepts and economic notions to elucidate the studied phenomenon by using a large number of statistical data in order to analyse the dynamics of public debt in Romania, in comparison with other former communist countries and to formulate proposals for a long-term sustained recovery and a sustainable economic growth.

Keywords: public debt, budget deficit, external financing, public debt management, degree of indebtedness, public debt service

JEL Codes: H63 - Debt, Debt Management, Sovereign Debt

I. Introduction:

"The need for public debt management in the context of sustainable development within the European Union" presents the main theoretical issues related to public debt management and its importance in the effective management of public debt, over the objectives and risks associated with public debt management. Moreover, the main objective of public debt management is to ensure that the government's need of funding and its payment obligations are met at the lowest possible cost, on medium and long term, consistent with a prudent degree of risk. The issues of public debt management often start from the lack of attention of decision-makers regarding the benefits of a cautious debt management strategy and the costs of a weak macroeconomic management of excessive levels of public debt. In the first case, public authorities should pay attention to the beneficiaries resulting from the use of a prudent public debt management strategy and of public policies that are coordinated in a complete macroeconomic framework. In the second case, fiscal-budgetary policies, monetary policies and exchange rate policies that are inappropriate to the economic situation generate uncertainty in the financial markets regarding the future returns of investment expressed in local currency, which will lead investors to request higher risk premiums. Particularly in emerging or developed markets, debtors and creditors alike, applying long-term commitments can suffocate the development of financial markets and they can severely impede public debt managers' efforts to protect the government from refinancing and currency exchange risks.

Moreover, poorly structured public debt in terms of maturity, currency or the composition of the interest rate to which unfunded big liabilities are added, were important factors in the induction and propagation of the debt crisis in many countries over time.

The process of managing public debt portfolio is a priority for every government in order to reduce medium and long term exposure to risks.

The main objective in process of public debt management is represented by providing for the governmental financing needs in terms of minimizing long term costs and limiting the risks involved. In our country, during the period proposed for analysis, a series of measures for the permanent improvement of the legal and institutional framework for public debt management were taken. These measures corresponded to a positive macroeconomic context; Romania obtained the best results at the beginning of the transition period. Analyzing the macroeconomic and policies - fiscal, budgetary, monetary, of exchange rate – one can see their continuous orientation towards public debt and budgetary deficit. The financing strategy for the budget deficit and the refinancing strategy for public debt will focus on contracting domestic loans by launching the issuance of public securities.

Domestic public debt represents the total of loans contracted directly by the state or guaranteed by it, from the internal market, in order to cover fiscal deficits, by financing and refinancing them. Also, domestic public debt represents the state's takeover of debts based on special laws, due to losses registered by some companies and state-owned banks. A series of public spending, financed in order to achieve objectives of national interest can also be seen as domestic public debt. The annual growth of external public debt (direct and guaranteed) was based on a rigorous foundation regarding the contract criteria, within limits that did not exceed the country's capacity to assure the service, respectively the reimbursement of capital rates, interests and related fees without a strict policy regarding the use of borrowed resources.

An incorrect structured debt by maturity date is an important factor in triggering the economic crisis. Short and medium term contracted loans with variable interest rates

may expose the state budget to a high risk if the international capital markets have changed the conditions regarding the refinancing of these loans. International financial organizations, the IMF and the World Bank, make suggestions on contracting loans for the purposes of directing those loans towards those on long term, thus avoiding countries' indebtedness on short and medium term. Also, an analysis of internal and external public debt service is presented.

II. Literature review

Foreign loans allow a country to invest and consume beyond its domestic production capacity and therefore, to finance the development of capital not only by mobilizing domestic savings, but also by drawing resources from countries with capital surplus. In order to define external public debt will start from the definition of external debt as the due amount in currency, at some point, by one country(s) to other countries and / or international financial institution on the basis of the credits received by the state (government), by private companies with the state's guarantee and also by companies or individuals, that remains to be paid in a period longer than one year³⁵.

The internationally accepted definition of external debt that results from the research conducted by international organizations, which have as the main field of activity crediting those countries that face problems in providing for their financial needs, presents gross external debt at one point as "the total of contractual liabilities used and unpaid by residents to nonresidents and the residents' obligation to reimburse capital rates, with or without interest, or to pay interest with or without capital rates³⁶."

In Romania, the Law of Public Debt No. 313/2004 defines the external governmental public debt as "the part of the governmental public debt representing all financial obligations of the state that derive from loans contracted directly or guaranteed by the state from nonresidents individuals or legal entities in Romania"

External public debt is a key parameter to assess the state of public finances; it can be defined as a consequence of the following macro economical issues³⁷:

- low production capacity in relation to consumption, investments and public expenditures;
- insufficient domestic saving, in relation to investments and the budgetary deficit,
- a overly high current account deficit, compared with net inflows of funds (debt is exempted);
- Excessive capital outflows in the form of direct investment or "capital leaks" abroad.

Consequently, the role of external public debt can be seen through the following implications³⁸:

- a) external loans allow the contracting country to invest and consume beyond its current internal possibilities and, in fact, to finance capital development not only by mobilizing domestic savings, but also by using the savings of countries with capital surplus;
- b) External loans may lead to a faster economic growth, enabling the financing of a greater volume of investments and the mobilization of the country's available resources, giving them a more cautious but a more effective usage.
- c) External loans can also serve to finance temporary deficits of the balance of payments and can provide the authorities with the solution to avoid to taking

³⁵ Ceaușu, Iulian. Enciclopedic Managerial Dictionary, Vol. I. Bucharest: Academic Management Publishing, 2000;, p. 264.

³⁶ Klein, Thomas M., External Debt Management – An Introduction, World Bank Technical Paper Number 245, Washington, D.C., p. 56.

³⁷ Gaftoniuc, Simona. International Finances. Bucharest: Economic Publishing, 2000, p. 403.

³⁸ Klein, Thomas M., External Debt Management – An Introduction, World Bank Technical Paper Number 245, Washington, D.C., p. 2.

actions that could jeopardize the country's development program.

III. Research Methodology.

In order to assess the level of external public debt and to correlate it with the situation of other macroeconomic variables (these ratios are more conclusive than the absolute size of debt), a series of indicators are being used:

- external public debt in the year (DPE):

$$- \quad DPE = DPE_d + DPE_g ,$$

- where:
- DPE_d is the external public debt of the state;
- DPE_g is the external public debt guaranteed by the state.
- External public debt service (SDPE), which represents the payments due in order to reimburse external public debt, representing the mature rates in a period of one year (RDPE), the interests and the related fees as well as the costs of issuance and placement of securities (Dob_{DPE})³⁹⁴⁰:

$$- \quad SDPE = R_{DPE} + Dob_{DPE} ; (1)$$

- the share of external public debt in GDP:

$$- \quad DPE_{/PIB} = \frac{DPE}{PIB} \cdot 100 ; (2)$$

- the share of external public debt in the volume of exports of goods and services (E)

$$- \quad DPE_{/E} = \frac{DPE}{E} \cdot 100 ; (3)$$

- the share of interests of the existing external debt in GDP

$$- \quad Dob_{DPE/PIB} = \frac{Dob_{DPE}}{PIB} \cdot 100 ; (4)$$

- the share of the external public debt service in GDP:

$$- \quad SDPE_{/PIB} = \frac{SDPE}{PIB} \cdot 100 ; (5)$$

- the share of external public debt service in the volume of exports of goods and services:

$$- \quad SDPE_{/E} = \frac{SDPE}{E} \cdot 100 ; (6)$$

- external public debt service in the state's budget expenditures (Ch_{BS}):

$$SDPE_{/Ch_{BS}} = \frac{SDPE}{Ch_{BS}} \cdot 100 . (7)$$

IV. Results of the research

The period 2007-2010 was characterized by the expression of the global financial and economical crisis. Although all European countries have been marked by different bubbles (the most frequent being the real estate bubbles), the crisis manifested unevenly, depending on specific conditions and governmental policies from each country and especially depending on the anti-crisis measures taken as a response to the crisis.

In Romania, in comparison with developed countries, external public debt has been and continues to be the main component of public debt. Throughout the period, the actual public debt was fueled substantially by external loans and only to a lesser extent on the domestic loans, this structure being specific to developing countries which lack their own capital market capable of meeting the needs of the private and the public sector. The funds attracted were from international organizations (IMF, IEB) with compliance to the conditions imposed and in the cases where the government could not meet those conditions, it turned to private banks that granted loans but with a higher interest rate.

Under the pressure of external financing of budgetary deficit, the authorities have promoted macroeconomic austerity measures, aimed to restrict governmental spending, reorganize the system of pensions paid from

³⁹ Moșteanu, Tatiana (coord.) și colectiv, Finanțe publice: note de curs și aplicații pentru seminar, Editura Universitară, București, 2005, p. 264

public funds, the system of social benefits and health insurances, which had short-term constriction effects.

The painful budgetary adjustments, especially in the field of social benefits have been politically legitimated by the "state reform" slogan and the construction of a neoliberal minimal state.

In reality, this approach was not accompanied by an appropriate and encouraging fiscal recovery, especially in the field of labor taxation nor by a real liberalization of some services or the entrustment of infrastructure works to the market.

An extremely important issue for fiscal and budgetary sustainability on long-term remains the reduced capacity to collect public revenues, which causes an additional tax burden on taxpayers and keeps the premises for structural budget deficits. In this respect, the areas that require special attention should aim to modernize the rural economy, adjust the tax level of properties, the taxed labor shortages, tax evasion and the numerous exceptions to the general tax regime. The reduced ability to collect or to generate additional budgetary revenues imposes on Romania a redefinition of the fields of state intervention.

In the long term, macroeconomic policies should aim to achieve general economic balance, a medium and long-term sustainable economic growth with the purpose to achieve real convergence, whether it will be expressed by growth of GDP per capita, by reducing labor costs, by the relocation of the share of national economy branches in the generation of GDP or by the degree of openness of the Romanian economy.

The draining budgetary measures taken in 2010 have been misinterpreted as an actual reduction of the Romanian state's intervention in the economy; they rather represent the only solution to reduce the budget deficit because of its funding difficulties.

V. Conclusions

For the recovery of the Central and Eastern European economies several groups of countries can be distinguished. Some countries have managed to contradict the experts forecasts, obtaining better results (Poland, Czech Republic), others have met their forecasts, those being the countries with the strongest economies in the EU (France, Germany), while others faced the collapse of their national economies (Greece, Spain).

To help cushion the impact on their citizens, governments have implemented a variety of initiatives. There are three important reasons why the analyzed countries were affected by the crisis. Firstly, the dependence on the foreign capital inflows (the ability to attract foreign investments meant to develop the national economy) and the money sent home by those working abroad to support consumption and hence the national budget. For example, in Romania and Bulgaria in 2009, the money sent home dropped by 30% - 50% compared to 2008 levels. Secondly, a large part of their exports were for countries in the region and the euro zone, so that the volume of transactions fell dramatically. Thirdly, several of the analyzed countries had their national currency dependent on the Euro and the weakened economies had been strongly influenced by Euros fluctuations which have often suffocated the exports.

In the case of Poland, the government used quickly and effectively all the European funds at its disposal in order to cover the capital withdrawals amid the international crisis, the current account deficit became stable and zloty's fall was stopped by the central bank of Warsaw with the help of BCE, avoiding mortgage debtors' entry into payment incapacity on mortgage loans denominated in foreign currencies.

Although the government has contracted a loan through the new "flexible credit arrangement" of the IMF, in very favorable conditions, the National Bank of Poland was not forced to resort to these reserves. Although it had to postpone its accession to

the European exchange rate mechanism (ERM II), the Polish government initiated an extensive privatization program to reduce the budget deficit and maintain public debt below 50% of GDP. Thus, Poland regained the investors' confidence that began to return to their country. Because of the fact that this economic crisis was much longer than expected, the 50% threshold was exceeded due to the financing needs of the budget deficit which has increased 5 times in the period under review. The goal of the deficit was the need for co-financing the projects with EU grants and also the investments in infrastructure that is why the output from this EU recession will find Poland with a healthy economy based on sustainable development.

Before the crisis started, Romania faced a high budget deficit, an overly indebted private sector, a real estate bubble and an over heated economy, Romania called on the help of the IMF in order to flatten the adjustment of internal and external imbalances set in motion by the global economic crisis.

Because of the delay of the Government in adopting tough structural reform measures and reduce public spending, eventually to channel the funds at its disposal to the economic sectors that would really help the development of a sustainable economic development, Romania was looked at and cataloged by the analysts as being without an economic horizon. Even though the percentage of the public debt in the GDP is a reduced one (30.8% in 2010) it is alarming that this public debt has risen with 300% in the analyzed period, from the borrowed sums being financed the social budgets deficits, the Government being content with a relative quietness of the social strata and waiting for the passing of this period without major interventions. The measure to reduce budgetary spending by cutting 25% in the public sector did not have a macroeconomic result because of the useless spending made from the same amount. In the analyzed

period, Romania was the only country that had registered a decrease in productivity.

An aspect that probably did not get enough attention is that the financing of the excessive budgetary deficits, whether is done internally or internationally, is not a costless action. On the contrary, the level of the interest rate at which the debt has been contracted, as well as its schedule are extremely important aspects and can become an extreme burden, as situations exist in which the principal of the debt can be compared with the interest. Confronted with the lack of immediate low cost financing, some states have even advanced the unorthodox solution that the government securities be repurchased by the central bank. This option can not even be taken into consideration, as the conditions of the Romania's accession to the Monetary Union targets too also other dimensions of the nominal convergence, beside the stability of the public finances, as would be: inflation, the stability of the exchange rate, interest rates, which would strongly affected by such a decision.

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IMPROVING THE ECONOMIC ACTIVITIES IN THE LESS FAVOURED AREAS OF ROMANIA

Tileagă Cosmin

*“Lucian Blaga” University of Sibiu
Faculty of Economic Sciences*

Cosmescu Ioan

*“Lucian Blaga” University of Sibiu
Faculty of Economic Sciences*

Abstract: *This paper deals with finding solutions for improving the economic activities in Romania's undeveloped areas, which still represent a major problem for this country's economy. During 1999 and 2009, these areas were considered tax havens, due to some facilities accorded by the Government and the EU (headage compensatory allowances*, tax deductions, non-refundable funds). Many had the opportunity to invest in those regions, but no positive effect was to be seen. Tulcea County (Danube Delta area), coal mine regions, rural areas and the North-East area (Suceava and Botoşani county) are considered to be Romania's less favoured areas.*

Keywords: *less favoured areas, non-refundable funds, tax havens, economic growth, economic activities*

JEL classification: *E60*

Introduction

Nowadays, every less favoured area from Romania represents a major problem for regional development, having a negative impact on Romania's economy. It is proven that long-term growth strategies for less-favoured areas require especially the development of infrastructure and national institutions, which kept those areas backwards. Since 1999, open trade between countries has been considered to stimulate the economic growth, both at national and regional level. This growth was often suppose to trickle down to less favoured areas. In other words, this was considered a process whereby the economic gains from economic growth would pass down throughout the entire society, eventually giving rise to development.

** The objective of these schemes is to provide a reasonable level of income for farmers where natural production conditions are least favourable so as to conserve the countryside by the prevention of further depopulation of rural areas. Compensatory allowances are payable to farmers for the keeping of cattle, sheep and goats. (www.europa.eu)*

People living in less-favoured areas represent around the globe 40% of the rural population, suffering from chronic poverty. In what Romania is concerned, a study from 2010 reveals that closely 33% of the population of Romania is living with less than 200 Euros a month.

Less-favoured areas are defined as „remote regions with limited natural resource base, where problems of chronic poverty and resource degradation tend to be the same. In the same time these areas have a limited agriculture potential, with poor infrastructure and service support”.

However, it is necessary to distinguish the concept of less-favoured area with development potential. This area would be an ideal place where investment especially in infrastructure and tourism can be productive and sustainable.

A large number of implementing directives comprise the current classification of the LFA of each European Member State into three types:

-*Mountain areas* (rural areas around the Carpathian Mountains) where altitude, climate and slopes, reduce the chance of

investments. The major problem for this areas still represents the process of deforestation, the lack of mountain resorts, and the lack of infrastructure.

-LFAs which are marked by poor soil conditions (especially low agricultural productivity), low population densities or even depopulation tendencies. In Romania Tulcea county (Danube Delta area) could be considered an area with a low rate of investments, low soil productivity mainly because the Danube.

-LFAs which are related to small areas with specific handicaps relating to the environment, landscape development, low agricultural activity, low tourism development. This area in Romania may be found in the North-East of the territory, including Botoșani and Suceava county. This area represents a major undeveloped region of Romania, mainly due to migration to other countries or even in more developed areas of Romania.

To find solutions in order to develop the less favoured areas, some objectives must be established: finding an economic balance between regions, finding new ways to attract new investors, developing agriculture, industry and especially tourism to enhance the value of the local resources, enforce the cooperation between the regional areas.

Two important elements always play an important role for less-favoured areas: defected political institutions and poor infrastructure (poor infrastructure often implies a long transport duration or difficult communication between a LFA and other regions). These two elements are especially relevant because of their link to the effects on the economic growth. Moreover, the political environment has a strong impact on the economic growth of the less-favoured area, meaning that in Romania the funds accorded by the Government to regions are not equally distributed.

Less-favoured mountain areas, and rural areas

The less-favoured mountain areas, which represent approximately 29,93% of Romania's territory are the homeplace for 2.400.000 romanians. The economic activities from these areas are mainly those related to the wood and furniture industry, agriculture and animal breeding. In the areas surrounding the Carpathian Mountains, due to the numerous protected areas, tourism is not well-developed, excepting the winter season when the winter resorts are full of tourists practising the winter sports.

A major problem for this area represents the process of deforestation, which causes numerous landslips and floods. It is well known that there is a lack of modern woodland planting that affects negatively the image of this area. Once a tree is being planted, it needs around 40 or 50 years to grow to maturity.

The forests offer important resources for the economy of this less-favoured area. Excepting wood, mushrooms, seeds, forest fruits, firtrees, mineral waters represent significant resources.

On a short term, tourism and especially mountains resorts should be considered strong points for developing the local economy, especially during the winter. In addition, due to the speed of falling waters coming from the mountains, hydro-electric power plants could offer to this area a new opportunity to attract new investors, becoming an area strong enough to generate new workplaces and greater amount of „green-energy”.

The less-favoured areas from the mountains (mainly the rural areas) in Romania are characterised by a scattered population and very low quality infrastructure – for example, only 33% of rural residents are connected to a water supply network and only 10% to a sewerage system, while only 10% of rural roads are considered of „adequate standard” with asphalt cover. The basic social infrastructure (health and education systems,

finance) is much less developed than in urban areas. These factors have a negative impact on the quality of life in the rural areas, increase migration, create environment problems, hamper economic development and exacerbate health.

In what rural tourism is concerned, this represents a significant potential which is not sufficient valorised. The tourism sector in 2009 in the rural areas, showed an increase in the number of accommodation structures and accommodation capacity. The development of rural tourism in rural areas depends on the specific of each region, agricultural products, ethnographic regions and folklore. It also depends very much on the existence and especially the quality of the tourist pension, different types of recreation activities, practising agriculture and in some areas winegrowing and animal breeding. For example the specific tourism for Bucovina (North East less favoured area) is religious tourism, in Maramureş it is the architecture and folklore, while in Transylvania the spotlight is the recreational and cultural tourism, food and wine. The mountain and forestry areas in Romania ensure the opportunities for practising tourism, in particular the so called eco-tourism which could be an alternative income, generating in this way different activities that could offer potential development, due to the unique landscapes, native hospitality, well-conserved traditions and food.

Noteworthy modernization, development and innovation are mandatory for Romania's tourism, together with creating modern and competitive tourism products. The main reasons why tourism is not that well developed in these areas are that there is a lack of organisation, promotion, information as well as qualitatively low tourism infrastructure.

The mountain and rural areas are affected by the significant lack of infrastructure which restrains both the economic development and the most important: the quality of life. The roads are the most important transportation

routes, but the quality and development of rural road and traffic is a long way behind the European standard. The undevelopment of the road blocks the economic growth, and interferes with other difficulties concerning the medical and educational services. The road represents the key element for the economic development among the fields of human, social and economic development.

Water supply is another key for the quality of life, as well as in a direct relation to the development of economic activities in rural areas. As an interesting fact in the less favoured areas of Romania only 33% of the rural inhabitants have access to the public water network.

As opportunities for development it is important the exploitation of wood, not exceeding the annual operating capacity, exploiting accessory products (berries, herbs, mushrooms, pine cones), extend forestry product processing industry taking into account regional sustainable development, increasing mechanization of forestry products and create a system to record the number of the cutten trees.

Attracting investors requires a modern infrastructure, forest road development, execution of simple pathways for wood processing machinery. In addition, the mechanization of woodworking would be a step forward in what development of mountain areas is concerned.

North-East less favoured area

The underdevelopment of this area appears to be correlated with rising unemployment, the prevalence of rural activities and failure to attract foreign investors. The North-East area is marked by the dependence on agriculture, and especially its proximity to other disadvantaged regions (Ukraine and Moldavia). It is the only region in the country with positive natural growth, the share of young population is high, and as positive aspects there is an effective education system in the large cities and skilled labor.

As weakness points, the rate of poverty is

high along with the rate of migration to the outside region, there is a lack of openness to change and especially modernization, the crime rate is higher than in the developed regions. To these are added the aging population of the region, undeveloped spirit of entrepreneurship, poor business support infrastructure, poor implementation of product quality assurance system, the low level of industrialization of wood, insufficient promotion of the region's investment potential, lack of cooperation between universities and the poor quality of public services, the lack of specific knowledge in business development, namely the creation of new jobs.

From an economic perspective, there is already a development of the activities related to the exploitation and wood processing, good financial banking and insurance infrastructure, and a large number of specialists in forestry, trade and public services. The industrial structure is fragile mainly due to the usage of outdated technology, having a negative impact on productivity and economic efficiency.

In terms of tourism there is a high share of private ownership in the tourism sector, the existence of spa and national cultural centers, along with the existence of developing the religious tourism (the presence of monasteries), mountain sports (hiking, skiing, paragliding), and the existence of traditional folklore events of the region.

The road infrastructure is poorly developed between East-West areas of the region, there is also a low percentage of upgraded roads, together with the density of railway lines being unequal in accordance with the distribution of the electrified railways.

Furthermore, the small number of cities with natural gas distribution systems, underdeveloped telephone network in rural areas, poor infrastructure development for leisure activities and outdated water treatment and waste management systems, are the main things to be changed for developing this deprived area.

As geographical influence, the winter contributes to disadvantage the area as many investors fear the harshness of the winter cold weather (in transport, industry).

The North-East region may become a major area of concern for investors, EU supporting less favoured areas. There is a legislative framework regarding the development of this area, providing many facilities to investors, including potential experienced staff for research.

As opportunity, it should be taken into account the privatization and restructuring of state-owned companies, the legal framework of local government involvement in regional development is being favorable to this region. Accelerating the economic recovery and sustainable development represents the key objectives to ensure the overpassing of the actual life condition. Development involves creating the necessary infrastructure to promote the business environment, supporting SME⁴¹s, developing entrepreneurship, rural development.

In connection with development, the industrial potential should be reevaluated in order to promote existing and new branches of industry. Building up a business infrastructure should help the development of the profitable activities for the less-favoured areas, having a positive impact on the deprived area only with a strict control of the local authorities (in the occurrence of phantom companies without creating new jobs, or poorly paid) and support for access to new technologies, efficient and clean.

Therefore, to ensure the development of the region, it is required effective cooperative ventures to develop effective managerial skills and support technology development.

Although, being a less-favoured area with limited natural resources, human resource is considered a valuable treasure of this region.

Investing in human resources is a priority of any regional development strategy. Just by raising the educational standards and human

⁴¹ Small and Medium Enterprises.

resource training system, economic recovery could be achieved, raising the standard of living.

Priority strategic directions in the upcoming years should focus on upgrading old roads, upgrading rural telecommunications infrastructure, modernization of water systems, municipal waste by attracting European funding grants. economic growth is the most important indicator of the development of a region. In this way creating a competitive economy is a decisive factor in the evolution of an area or industrial enterprise.

There are assumptions that can form the basis for economic recovery, namely:

-existence of an industrial infrastructure in almost all sub-branches (machine building, chemical, petrochemical, food, textiles, medicines, wood, etc.);

-existence of a well-trained personnel.

-existence of companies in the industry, which benefited from consistent and fresh capital.

-dynamics of small and medium enterprises.

Tourism development in the NE disadvantaged

Tourism is a priority, and by the enhancement of existing targets, improving the quality of tourism services, responding to the actual requirements of customers, the image of tourism could be improved by creating a positive image of tourism in the area.

The region presents many opportunities for various and complex recreational activities: religious-tourism, supported by the existence of an impressive number of churches and monasteries, historical monuments throughout the region; cultural-historical tourism, the existing museums, famous castles and a great cultural heritage and folklore of the region. For the economic progress, namely tourism, following investment in tourism, agro-tourism support, upgrading roads in mountainous areas can sketch some results:

-Increase the number of visitors to the North-

East region, and investing money in upgrading areas.

-Increase the volume of private investment in tourism.

-Increase the volume of requests for construction of vacation homes that bring additional revenue to local budgets.

-Creating a positive image that offers prospects for large-scale business and investment.

-Working with the media, advertising that will help promote the area.

-Improving the financial situation of the disadvantaged population.

-Scale applications for sponsorship grants for construction of new technologies in the health system.

Financial facilities given to the less-favoured areas.

To assist disadvantaged areas, the Romanian government has proposed that by 2013, these areas should be given various grants and tax breaks to help economic development.

For new investments made in a deprived area, investors can benefit from one or more of the following features:

-full refund of customs duties for machinery, equipment, equipment, vehicles (excluding cars), other depreciable assets which are imported to carry and operate investments in the area, as well as raw materials, spare parts and / or imported components necessary to achieve performance in the area

-exemption from profit tax during the lifetime of the deprived area

-financing special programs, approved by Government Decision

-finance companies investment projects, through co-participation of the state to the social capital

-discounted rates for car transport, inland waterways and rail

-reducing income tax by up to 50%.

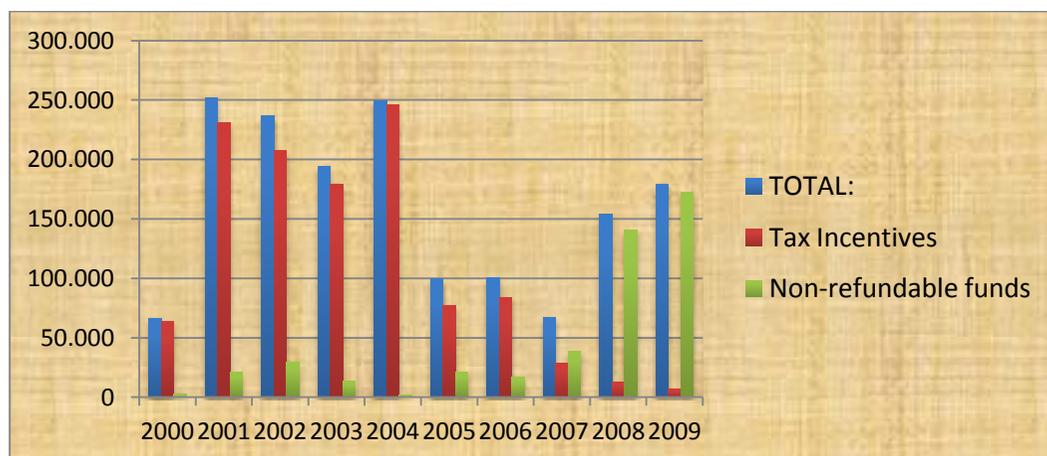
These measures taken by the Government, aim at equalizing currently considered disadvantaged areas, with already developed regions of Romania.

CASE STUDY: THE IMPACT OF STATE AID TO ROMANIA LESS-FAVoured AREAS -ROMANIAN GOVERNMENT AND COMPETITION COUNCIL 2000-2009

Regional development policy is an essential component of the reform process in Romania, mainly aimed at reducing economic and social imbalances accumulated, preventing the emergence of new imbalances and support the overall sustainable development of all regions of the country.

Evolution of regional aid in Romania during 2000-2009 (RON)

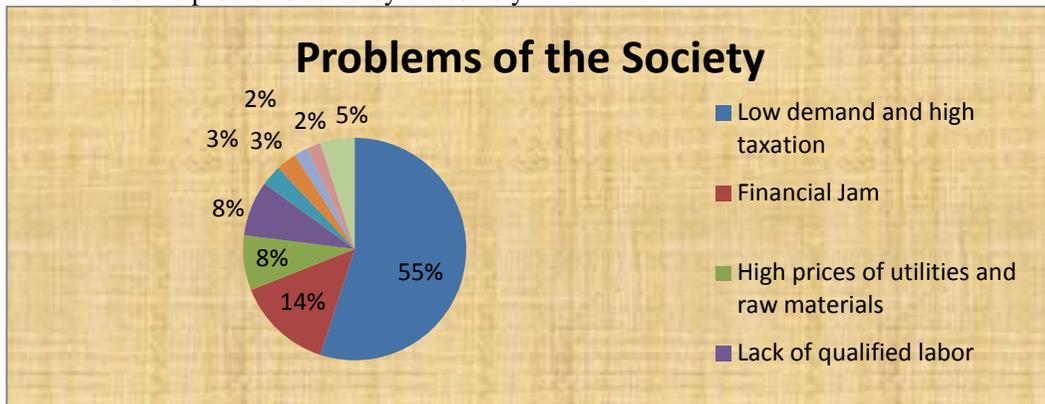
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
TOTAL:	66.384	252.017	237.110	194.155	249.353	99.644	100.948	67.582	154.226	179.376
Tax Incentives	63.800	230.957	207.568	179.476	245.957	77.391	84.162	29.080	13.206	7.130
Non-refundable funds	2.584	21.060	29.152	13.719	2.098	20.944	16.655	38.502	141.020	172.246



The general trend of decrease in the volume of such aid by 2008 is because the vast majority of aid was granted as tax incentives. Since 2007, new schemes have been initiated with the objective of regional state aid, in full compliance with EU rules.

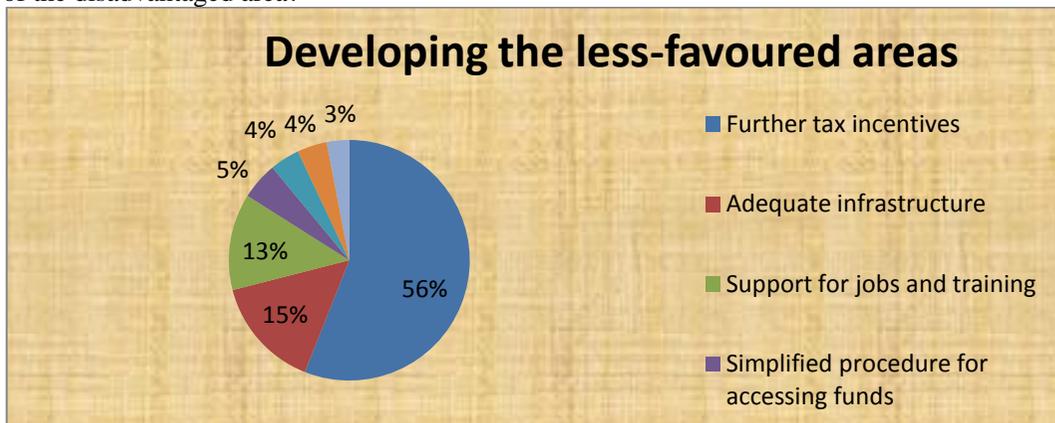
Also while checking operators in June 2010 (a total of 109 from disadvantaged areas), a study was conducted on two questions:

1. "What are the problems faced by the society?"



So it may be noted that the majority consider that there is a low demand due to the current crisis, followed by those who believe that there is a huge financial jam and the high prices of utilities.

2. "What measures do you think the state should take in order to raise the social-economic level of the disadvantaged area? "



Conclusion

Disadvantaged areas in Romania were considered tax havens, the ghost business having prospered without bringing any positive aspects to the less-favoured region. A 2010 study, conducted by Pro TV campaign, showed that 33% of Romanians live with a wage of about 200 euros per month. Between 1998 and 2010 there were approximately 160 cities declared disadvantaged, where many companies tried to move its headquarters to

the enjoyment of the exemptions (about 6 billion RON). Companies wishing to relocate their headquarters in these areas had no such development project, creating a monopoly on the labor market, taking advantage providing extremely low wages for people who were willing to work.

Moreover, an investor from a deprived area is required to engage minimum 2 employees residing in that area, which would lead to lower unemployment in the disadvantaged

region. State aid to disadvantaged areas led the companies to develop diversified economic activity, the population has become more responsive to the conversion process. Most companies have relied exclusively on these grants from the government instead of continuing research and finding its own funds, tax incentives were an additional cost for Ministry of Public Finance, who had to make numerous tax inspection. For the best possible structural funds for the development of disadvantaged areas is recommended to promote information campaigns in both economic agents and local authorities. The authorities also need to simplify legislation for obtaining grants. Attracting investors outside the LFA can be achieved by creating industrial parks along with investment in local infrastructure.

Linked to the yield, most traders have noticed a decline in profit in 2005, the period during which state aid stopped, increases recorded in 2006 and 2007, followed by a period of declining profits, because of the decreased number funds granted. Migration factor (or even interregional migration in other European countries) resulted in a decrease of GDP especially the North-East region. However, there are positive signs, as investors obtained licenses in less-favoured areas, have created an estimated 44,300 new jobs (Source: The Competition Council in the year 2009), representing about 5.3% of the total unemployment number.

Less-favoured areas in Romania could easily disappear if the political factor would not have direct impact on the funds granted, only changing legislation and eliminating regional bureaucracy, would lead to an improvement in the economic situation of each region.

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