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Performance and Risks in the European Economy

Regulation and Deregulation
from Legal Theory to the Practical Case of the Financial Sector Nowadays

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Abstract: The two great challenges for any authority are to what extent and how to intervene in the functioning of the society. These challenges originate both in the world of ideologies, defining the type of state or authority based on its propensity for regulation, and in the technical expertise of technocratic management that can identify the "good practice" and "good governance" features. Both policy sources are necessary and legitimate. The ideological sources help support a representative mandate obtained by an elected power, being validated by citizens' vote, while the technical ones contribute to optimising the efficiency of the public option by managing it in an appropriate manner. To set a simple example, if the ideological option is in favour of maintaining a company under state ownership, then the technical option may be to ensure a competency-based management controlled solely according to performance criteria. If the ideological option promotes the privatisation of a state-owned company, then the technical option may seek to ensure a privatisation procedure that should maximise the public benefit (through price, other contractual terms, enhanced market competition, clauses or measures to protect consumers, etc.)

Keywords: management; good practice; good governance; public benefit

Before starting a discussion on the topic, it is important first to define the terminology. It shall not be easy. There is no generally accepted definition of the term "regulation" in legal and economic literature. For the benefit of this presentation, we will attempt to identify one from an ideologically neutral perspective, as the employment of public coercion instruments, whereby prescribed behaviour is rendered mandatory under penalty of sanctions, with a view to implementing social and economic policy objectives. (den Hertog, 2010)

Based on the envisaged mechanism, there are two types of regulation, namely structural regulation and conduct regulation. Regulation may concern the market structure and its parameters: restrictions on market entry or exit, rules mandating firms not to supply professional services in the absence of a recognised qualification, mutual support systems for market players or ensuring a level playing field in terms of non-competitive services applicable to all market players. Regulation may equally aim at market participants' behaviour: price controls, the requirement to provide equal treatment for all, obligations related to consumer protection, cartel banning.

The legitimacy of regulation as an act of authority is *per se* a controversial issue. However, overlooking it implies a major discretionary behaviour risk, the risk of regulation going beyond the necessary limits and beyond public interest. The analysis of the legitimacy of regulation requires an approach based on the values that may be subject to protection – the axiological approach, as well as

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an approach based on the efficiency of regulation, on the relation between the pursued goals and the employed means – the economic approach[1].

In terms of values, a question arises as to how far regulation should go in controlling human behaviour? In other words, where should we trace the Hayek's boundary between Law and legislation? The present crisis has raised a whole series of ethical accusations against the financial community and urged the authorities to regulate what had been previously deemed as a fundamental value of capitalism, but seemed to have been lost. The matter deserves a more in-depth analysis and I will do that in what follows.

From the regulation efficiency point of view, the costs related to the initiation and administration of regulation, as well as the systemic coherence of regulation should be considered.

As regards coherence, it must be noticed that, more often than not and definitely in the financial field, regulations must be assumed within a system that should ensure generality and universality. If the social player may circumvent the regulations governing different institutions or choose the most suitable one – i.e. domestic regulatory arbitrage – then the regulatory process fails to meet its goal, proving itself inefficient. Hence, the probability that the decision to regulate a certain field – such as credit institutions – may trigger the need to ensure, at a national level, contiguous regulations in fields such as financial markets, capital markets, consumer protection, etc.

Nevertheless, this is not enough, once the second challenge becomes apparent, namely ensuring that the regulation of the envisaged field covers the entire relevant market. To set an example, limitations on the volume of foreign-currency loans in Romania are not efficient if the bank may grant the same volume of loans via a structure based in another country where this regulation is not applied. We can see here a second type of regulatory arbitrage, at international level, by choosing the preferred law from among similar laws in place in different countries. In this case, the classical legal principle of the territoriality of the law is challenged by the economic reality of globalisation, via market integration and openness, which push the limits of the universality concept from national territoriality towards an open market territoriality (which, in rare cases, can be national, being extended to the European Union level for agricultural products, or quasi-global for financial products).

At present, regulators comprehend the need for regulatory coherence quite well, which is not the case with deregulation coherence. Indeed, for identical reasons, the deregulation process is at risk of causing the same two imbalances – in terms of harmonisation[2] and territorial coverage[3]. Furthermore, given the usual duration of a regulation – deregulation cycle, the know-how, the institutional memory of the previous process fades away unless it disappears completely.

This is why the deregulation approach must focus not only on identifying the impact of the norm to be abrogated, but also, simultaneously, on pinpointing the consequence of other relevant norms being kept in place. As a matter of fact, this gives rise to the main pros and cons concerning regulation when it comes to its economic approach. Let us look at the financial market for instance. Examining statistical data on numerous business cycles worldwide over the last centuries, gathered by K. Rogoff and C. Reinhart, deregulation is found to trigger growth, overheating, followed by crises. Promoters of tight regulation argue that responsibility falls to deregulation itself. On the other hand, promoters of minimal regulation blame the insufficient deregulation. I shall not come with an ideological option, that would rest with the polity. An ideologically neutral vision might point particularly to the non-systemic and imbalanced approaches to deregulation. In other words, if one regulation that was part of a stable system (or seemingly stable, according to libertarians) is eliminated, this will render the

[1] See the distinction, as presented by (Dragomir Jora & Butiseaca, 2010)

[2] Referring to the previously mentioned general law enforcement, seen as the application of the same rule to all legal subjects performing the same operation or, as the case may be, to all the operations carried out by the same legal subject, regardless of their formal identification and the varied pieces of legislation regulating them.

[3] Referring to the previously mentioned universal law enforcement, seen as the application of the same rule to all legal subjects and to all the operations carried out by them, as long as they operate on the same (national, regional or global) market regardless of the origin country of the legal entity or the state where the operation is performed.

system unstable; yet, the blame does not lie with deregulation, but with its lack of correlation to the system of regulations and its effects.

In terms of the costs of regulation, the generally acknowledged principle is that there must be a difference between the financial and, by and large, social benefit of applying regulation and its attached cost, a "profit", large enough to warrant the implementation of the regulation. The estimates on the benefit and cost related to enforcing regulation take into account the financial dimension, but also aspects related to timing, social harmony among citizens, as well as between citizens and the authority or the functioning of the political representation – the fulfilment of electoral commitments.

The regulation costs and benefits may be deemed as absolute costs when they are related to a unique intervention formula or when they come with non-intervention respectively. Where there are several intervention solutions, they are assessed by reference to the alternative solution. Thus, in the economic field, including the banking system, the regulation costs must be assessed either by reference to the costs related to the regulation in force, or by reference to those attached to private mechanisms such as self-regulation, the enforcement of private contracts and commercial practices, the use of arbitrage as an alternative to public justice.

So much for regulation as the instrument of the legislator. When talking about the manner to use it, namely about the **process**, we will refer to the increase in the number or tightness of constraints on how citizens and credit institutions conclude financial agreements or manage their financial portfolios as the financial and banking **regulation process**.

In turn, the **deregulation process** in the banking and financial field would envisage the decrease in the number and tightness of the said constraints. As shown by the classical literature written before the Great Deregulation that took place after the 1980s, deregulation aimed at ensuring that:

- banks may charge for their services as they decide to and provide any conditions to take deposits;
- banks may hold and trade any category of financial assets and resort to any financing source, except to issuing currency.

Thus, deregulation was not theoretically perceived to contain prudential regulations, but we will come back to this issue in the course of the analysis. Furthermore, during the "classical period", deregulation would not go as far as to suppress the minimum required reserve system, the capital adequacy rules, the deposit insurance or the rules governing the access to the Lombard credit.

In the financial and banking world, the regulation issue was brought up for discussion many times and it is of utmost interest at present, with its two dimensions, namely to what extent one should intervene in the market and how – according to rules or in a discretionary manner.

The first dimension of the dilemma implies a series of options. Depending on the regulation degree at the moment of the decision, there may be regulation or deregulation. Looking at historical records, there is reregulation or overregulation.

The second dimension, i.e. the degree of discretion of public action implies a well-thought-out choice, weighing predictability, transparency, efficiency, adaptability to circumstances and last but not least accountability. An equivalent with the exact meaning of "accountability" is missing in Romanian and the reason for this word's absence is the historical lack of the institution. Mention should be made that, in the financial and banking field, the discretionary room for manoeuvre of the public authority in charge of monetary policy, supervision or macro-stability is markedly larger than in most public policy areas, for reasons developed by economists rather than by politologists or constitutionalists.

As a matter of fact, if we go beyond the boundaries of today's debates, we shall find an alternation between regulation and deregulation, between many and few laws, as well as a relatively continuous increase in the acceptance of discretionary action. Browsing the literature, we learn that, until the Great Depression, regulations were extremely few, and the state's discretionary behaviour was virtually inexistent based on the epoch's golden rules on the inviolability of private property and the state's non-involvement in the economy. In reality, even at that time these rules had their limitations, if we look at the arms industry or the navigation companies, but interesting enough, not in the financial field, where even issuing institutions were generally private institutions.

Starting with the New Deal, there followed a period of strict regulation of the financial sector: the segregation of investment banking from retail activities, interest rate control, capital flow controls, a time of great stability. As for the authorities' action, this was limited to enforcing legal provisions (i.e. to set the overnight rate), since the very solid stability of the system at that time never posed any challenges calling for intervention.

The 1970s ushered in the period of the Great Deregulation. This time, the very concept of deregulation as defined above – namely the liberalisation of fees, lending and deposit rates, asset holdings and the use of financing sources, currency issuance excepted, of financial transactions and the capital account – was taken one step further. Prudential requirements in terms of both bank capitalisation and customer eligibility for loans were cut down in the United States and elsewhere. On the other hand, the discretion of administrative action rose moderately, particularly via more frequent active monetary policy measures, particularly geared towards loosening the screw.

The tide turned yet again with the advent of the Great Recession. Regulation was back on the agenda and a return to the levels seen after the Great Depression cannot be ruled out. Discretion skyrocketed, including via resorting to ad-hoc monetary policy instruments, administrative interventions in the management of credit institutions, nationalisations and other types of administrative changes in ownership with a view to safeguarding macro-stability.

Anecdotal evidence points to similar century-old instances in the history of the Romanians. Thus, what we would now scholarly refer to as rule-based administrative action might trace its roots back to the hearth tax levied by the ruler squeezed by creditors. Conversely, the propensity for discretion reminds us of the Wallachian ruler Mihai Viteazul (Michael "the Brave") locking up his creditors and setting the dungeon on fire.

Nowadays it is clearly interventionism that prevails. It suffices to look at the G8 and the G20 discussion fora of the major economies, including the Financial Stability Board charged with implementing their decisions, the Basel Committee on Banking Supervision – the melting pot of the future standard for global prudential regulation, the Dodd-Franck Act and the proposal to implement the Volcker rule in the United States, the legislative package the British Cabinet is currently working on, as well as the avalanche of EU directives, to which a flood of EU regulations will probably add soon. Tighter regulations and keener discretion are visible at all levels throughout the world.

As far as regulation is concerned, several lines of action can be identified, all of which are subject to controversy. The rationale behind the heated debates and the identity of the debate participants are actually quite interesting when it comes to assessing the importance of the proposed changes.

Capital Requirements

A first line of action is a prudential one, which focuses on higher bank capital and liquidity requirements. The goal is to enhance bank resilience and mitigate the risk of credit institutions defaulting on their obligations, case in which either they become insolvent or, due to the large volume of externalities generated, they force governments into costly bailouts hurting the public budget.

Several criteria, some of them minimal, have been set for assessing capital adequacy, complemented by a capital conservation buffer – i.e. additional equity for systemically-important banks – and a time-varying, countercyclical capital buffer, which is to be accumulated in times of growth and be used during an economic downturn.

Banks in Romania are in a comfortable position in this respect. Capital requirements in Romania have long been markedly higher than elsewhere. In the likely event that Basel III comes up with an increase in the Tier 1 capital ratio to 7 percent from 4 percent previously, along with a capital conservation buffer of 2.5 percent for systemically-important banks and a countercyclical buffer of 2.5 percent, credit institutions in Romania already boast a capital adequacy ratio in excess of 10 percent.

Criticism to Basel III proposals came from two directions. On the one hand, independent analysts and authors of studies published by highly-regarded central banks, such as the Bank of England, suggest that the capital adequacy ratio should actually be raised to around 20 percent of risk-weighted assets, at least for large credit institutions. Such a marked reduction in risk would obviously imply a drastic cut in the volume of financial intermediation. Given both the current and the foreseeable levels of banking industry profitability, shareholders are expected to go for deleveraging rather than for such a capital increase. On the other hand, the prominent figures in the banking industry are not enthralled with the idea; the shareholders and bondholders of US and large European banks alike look upon recapitalisation as an unwarranted cost in terms of return.

However, in light of the aforementioned accountability issue, what regulators need to point out is the dual effect of these regulations. Additional equity is tantamount to extra safety, but it also means lower return ratios and hence a potentially less appealing banking sector for investors. Further on, since financial intermediation is pivotal to market functioning, incentivising investors implies improving the margins, and thus enhancing profitability, which can only be achieved by matching the rise in revenues (via higher prices of banking services) with capital increases. More plainly said, if the society pursues extra safety of financial services, it needs to accommodate a higher cost for such services.

Similarly, setting higher liquidity thresholds entails a decline in the financial intermediation activity. In institutional terms, this means a narrowing of banks' social function, whereas in economic terms it is a cut in the financing of the real economy, implying slacker economic growth and a more strenuous exit from the recession. In other words, more liquid banks mean lower risks of non-redeeming deposits on demand, but this comes at the expense of muted economic growth.

Lending Regulations

Reregulation by reintroducing lending limits and conditions is yet another line of action currently pursued in the regulatory field. The purpose of such regulations is to ensure the public-interest finality of financial intermediation, namely the closing of a loan cycle (originate-service-repay). Any disruption in this cycle entails major private costs incurred by the borrower and lender alike, as well as public costs arising from inefficient resource allocation.

In this case, criteria are usually defined at a national level and may seek to contain an entity's overall indebtedness, to introduce tighter requirements on loan down-payments and length or to stress-test the debt servicing capacity depending on risk factors such as income, interest rates and, where appropriate, foreign exchange rate movements.

We saw the response to such a regulation only a few months ago in Romania. The main objection to the new NBR regulation on lending was that the introduction of stricter requirements would depress lending, already hurt by the recession. But here we are dealing with a confusion of terms, generated by the confusion of principles referred to earlier: the very process of lending means, or at least should mean, the complete cycle ending with full repayment. It is this particular type of lending that should not be deterred, because it contributes to economic revival. On the other hand, it is of public interest and to the benefit of each stakeholder not to foster unsustainable lending, which deepens the recession by wasting resources.

Regulations on Business Ethics and Remuneration Mechanisms

There is a century-old dispute as to the extent to which law can intervene in public and/or private ethics. The starting point now is a virtually complete lack of regulation. Back in 2007-2008 and for a long time beforehand, as early as the introduction of free market mechanisms, it was believed that business ethics related to economic agents' individual cultural dimension, be it religious or secular, and to market self-regulation – at the level of professional and industrial associations. As for remuneration mechanisms, the belief was that they were regulated exclusively by the market and by corporate governance controls, also an integral part of the market – the shareholders' control over the board of directors and the latter's control over executives.

In fact, it turned out that industry showed no concern whatsoever for ethical matters, which were not regulated, monitored or discussed within the trades of the financial world. In addition, the "classic" expectation according to which an economic agent's market activity is usually ethical for fear of market rejection was proven wrong for at least two reasons: one has to do with remuneration, which will be discussed in more detail hereunder, and the other relates to information asymmetry. The latter is a specific trait of the financial and banking areas, given the complex operations that are difficult to fathom by customers. The more complex these operations grew, the less intelligible they became even for bank managers in the run-up to the crisis. In turn, this led to serious conflicts of interests in dealing with these instruments. Providing buy recommendations to customers for derivatives while short-selling the underlying assets is a good example in this sense.

As far as remuneration is concerned, it is obvious that the mechanisms introduced by market players were wrong and that the corporate control tools did not work. This issue of shareholders losing the grip emerged not only in the banking industry, but became widely-spread among corporations. Since there is a deeply-entrenched rejection of the idea that the remuneration system might ever malfunction for a long time and across numerous companies in a free market context, let us look into how practice has not proven theory wrong, but rather has deprived it of its underlying premises. The short-circuit occurred as follows: the management and the shareholders are two different groups of stakeholders for most of the large corporations. The majority of the shares are, more often than not, held either by small investors or by portfolio investors, none of whom are essentially specialists in the company's line of business. This generates an obvious information asymmetry between such investors and the management. Besides, the management resorted to the wide-scale technique of linking the stipends of shareholders' representatives – members of the Boards of Directors or Supervisory Boards – to the remuneration of the executive management, which placed such representatives in a clear conflict of interests in relation to those they represented when it came to wage policy decisions.

This led to bank managers being remunerated based on their own appraisals, rather than the appraisal and the degree of satisfaction of the beneficiaries of their performance. Two consequences emerged related to the specifics of their term in office. Thus, the time-limited tenure resulted in linking managers' bonuses to their short-term and very short-term performance. The risk of terminating a manager's employment by shareholders' decision was countered by severance payments that were not linked to performance – the so-called "golden parachutes".

Further down the hierarchical ladder, managers set the stage for cashing in their own bonuses. In other words, they based their remuneration on the actual volume of loans granted, regardless of the default risk. The subprime mortgage crisis traces its roots back to this practice. Or, at least, this is the simple explanation. There are more intricate accounts as well, so it is up to the reader to choose the most plausible version.

The regulators' response to this market distortion targeted especially its effects, namely the way in which bankers' remuneration was determined. As for the underlying cause, i.e. the lack of shareholders' control over the management of large corporations, it is still to be tackled. Returning to the effects, regulations were introduced whereby bankers' incentives and bonuses were linked to the institution's long-term interests, depending on the bank's longer-term performance (around four years). In addition, it was decided that such benefits be provided mostly in other forms than in cash.

Such regulations are already in place across the EU, via a directive of the European Parliament and of the Council, and they have also been transposed into national legislation. However, mention should be made that domestic bankers have pursued a reasonable wage policy.

Regulations on Macro-Stability

The very concept of macro-stability, or financial stability, still lacks a positive definition. Until then, we have to make do with an institutional definition: financial stability as the absence of financial instability.

Given the negative externalities peculiar to the banking system, financial instability is an extremely serious threat to private life and the functioning of the economy alike. Besides, a close scrutiny of banking crises across countries and across history yields the same statistical conclusion: among all types of economic crises, banking crises leave behind significant increases in public indebtedness.

For these two reasons, at the end of the day it becomes apparent that preventing the emergence of financial instability, costly though it is, proves less pricey over the medium term than leaving it up to market rules. This implies a wide array of early intervention tools in relation to banks that run the risk of facing an unsustainable position in case of making recourse to the usual means, such as funding of last resort, capitalisation, market takeover. We are referring to administrative tools, i.e. asset and/or liability transfer, bridge-banks, temporary nationalisation. All these involve key decisions on the financing source (shareholders and bondholders, the banking industry or the public budget) and enhanced corporate governance mechanisms. After all, the bailout is meant to give the business renewed impetus, not a push back into a state of default.

Conclusions

Public debate is admittedly tilted in favour of the strict regulation of the financial sector. A major moral objection raised as part of this argument refers to the blatant inconsistency between the social function and the individual motivation of financial intermediation. Thus, the social function means securing the funding of projects that bring added social value, one of the components of which is, undoubtedly, loan repayment. After all, the amounts earmarked for lending in the financial system do not usually come from a bank's shareholders, but rather from its depositors. Instead, both in the run-up to and in the aftermath of the crisis, it has been found that banker remuneration mechanisms have not targeted social finality; quite on the contrary, they fostered granting doubtful loans, treasury operations and trading in derivatives, all the way to manifest conflicts of interests, such as proprietary trading operations to the detriment of their own customers.

In my opinion, the system is now firmly on the path of strengthening regulation. But in order to lead to a successful outcome, this path needs to have the proper ethical and systemic foundation. Let me conclude by listing several examples of such principles:

- Ensuring a competitive environment: the overconcentration of the industry implies the risk of losing the benefits of competition and a wider share of "too big to fail" institutions;
- Bringing bankers' individual motivations in line with the industry's social function;
- Strengthening the industry's ethical basis by regulating conflicts of interests between the banker and the bank and between the bank and the customer;

Setting up buffer funds and mechanisms to ensure higher resilience of institutions and the system alike during times of crisis, enabling the system to regain balance via its own resources and thus precluding any further bailouts from public money.

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Society's Expectations of Corporate Performance Today (Some Discussions about a 'Global Performance')

Yvon Pesqueux [1]

Abstract: Society's expectations regarding the performance of major corporations could not really have been examined before now. This is to say that, within the political context of the modern world, society had no expectations of corporations, which were considered as one social construct among others. From a broad political perspective, societal expectations could be seen expressed in the exercise of representative democracy. The political context (the 'liberal moment' herein), which has developed since the early 1980s actually changed the general perspective. (1st argument) The main consequence is a shift in the dominant representation of the corporation, so that it is currently considered a vector of profit rather than a 'socio-technical' system. (2nd argument). Of course, the ambiguity of the very notion of performance did make it possible to integrate expectations beyond just profits (3rd argument); nonetheless, these expectations must be judged both in terms of hope and reality. (Conclusion)

Keywords: performance; major corporations; modern world; profit

JEL Classification: G3; G30

1. The Context of the 'Liberal Moment'

The liberal moment serves as the bridge between a political concept of 'living in' a sovereign state and the concept of 'living with' others. The former relies on a classical Enlightenment perspective seeking to link democracy and liberty through references to universal law and the people's sovereignty; whereas, the latter uses the 'neo-liberal' perspective which retrieves liberal ideas of removing the individual from any form of submission, of merging the universality of the law with the 'particularity' of interests, and of conferring a third power on the Judge because of the tension between rights and the law. The 'social' opinion thus fits in with the universal principles (as they are not discussed) and with the law, which stems from political power. In other words, the reference to opinion brings into play both civil society and social judgment-elements found at the heart of governance. Governance relies on the expression of a social judgment, which embraces both the form of governing (container) and the result of the acts of government (content). Moreover, governance favors judgment on form ('quantified or contained' empirical evidence) over judgment on the content because results of the acts of government generally take place within a historical context. Indeed, this logic underwrites expectations of performance by large companies.

The 'liberal moment' (Pesqueux, 2007) is characterized by overlaps among:

- a traditional political liberalism putting forth the principle of liberty; i.e., the connection between the universality of laws and the expression of particular interests;

an economic liberalism putting forth freedom of expression of material interests but retains more of the 'laisser-faire' idea;

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- a utilitarianism, philosophical doctrine which assigns value only to that which is useful and legitimizes the distinction between THEORY (secondarily useful) and PRACTICE (fundamentally useful);

- a positivism which gives a positive content to 'technical' determinism and which led to the substitution of the term *technology* for technical on the basis of referring to the corporation and communication and information technologies;

- a pragmatism that is a philosophical doctrine using as a truth criterion practical success; however, herein pragmatism is envisaged from the point of view of material success.

The legitimacy granted to capitalism is an old economic practice born in its modern version during the fifteenth and sixteenth centuries as a political order. It is applied nowadays around the world, thus from the perspective of a globalizing ideology.

The 'liberal moment' could be characterized as an ideology as well as a form of governance which fits with a social 'reality' that has its own characteristics including a negative dimension (to prevent from doing) and a positive dimension (to encourage to do). This inherent tension in the State's role is representative of other more economic tensions. First and foremost, there is 'disintermediation-reintermediation', a tension in transactions (material or financial) stemming from the use of information and communication technologies. There is also 'compartimentalization-decompartimentalization', seen in the crumbling of borders between institutions and organizations as well as among the institutions themselves (alliances, networks, etc.). Lastly there is the tension of 'deregulation-re-regulation' typified by the substitution of a standard ('self-decreed' in a way) for the law. This 'liberal moment' may be seen as both a continuation and something out of sync with the English and American liberal tradition.

Indeed, that liberal tradition may be considered as having been completed by the following components:

1. components from libertarian liberalism and communitarian liberalism, two perspectives of contemporary liberalism which recognize the legitimacy of the rights of individuals and communities hence the existence of 'differentiated common goods/communal property' as distinct from a general 'Common Good';
2. components from neo-conservatism, which attacks the excesses of democracy related to the overload coming from the multiple new rights associated with the liberal expression of communities;
3. components coming from neo-liberalism, which preaches the substitution of market categories for a 'State of *re*distribution'.

Yet, in all three cases, the focus remains the same: the problem of the limits of representative democracy, whose very quality may be considered as questionable.

4. Components of civic republicanism stem from two aspects: 1) the affirmed existence of a 'Common Good', even if civic virtue is founded in terms of a civil society; and 2) the reduction of corruption. Civic republicanism leads to the proposal of ethical categories in order to criticize individualistic and utilitarian perspectives but without the 'social contract'. Contestation targets the organization, seen as an agglomeration of individuals coming together for their mutual benefit within a society. Neoliberal categories end up being contested more radically in the name of civic republicanism, which suggests giving priority to a "Common Good" because of the atomistic nature of the liberal concept of the individual. In short, there is room for merit (according to (MacIntyre, 1997) and for the idea of 'constitutive commitment'.

It is the mix of all these elements that makes up the 'liberal moment' and makes reference to expectations as both necessary and problematic. The priority given to applied ethics and business ethics actually stems from the 'crisis of laws' within the current context of globalization and attendant deregulation. This is not really a response to a social demand but rather a means to introduce standards into the market logic. Governance thus appears as an instance of regulation among social demands expressed in the marketplace and as a response to a demand for value which cannot be expressed there. The standard tends to be substituted for the law and to become a means of regulation in particular cases. This is what is at stake in lobbying. The lobby must take a stand *vis-à-vis* other regulatory organizations (e.g. CSA – Conseil Supérieur de l'Audiovisuel in France, agency devoted to medias' regulation). These regulatory agencies create a place where legislation is decentralized given the legitimacy granted expertise and efficiency. Indeed, this is what leads politicians to legislate on ethics, to decree norms without norms and, all the better, to encourage corporate leaders to dictate their own standards.

In short, this is what makes privatization a political system through which the actors dictate their standards while not bothering with proof of their representativeness.

2. Organizational Consequences: Process or Financial Model of the Organization

The Process Model of the Organization

The first representation of an organization here is one that considers the corporation as a process that transforms inputs and outputs. This is perspective is engineerial and long-term. Organization may be considered the materialization of a process created to last and to produce objects (goods and services) designed to be sold or delivered with profits, a surplus or balance as a result. This type of organizational model presupposes efficiency as a goal. That corresponds to the optimization of costs associated with each element in the process given the 'state of the art', defined using an engineerial reference.

The objective of management methods inspired by this model is 'follow the process', or 'steer it' independently of the people involved but through reference to some technological know-how.
Through competencies, personal dimensions intervene and a political dimension forms. For example, in the context of cost analysis, the return must be calculated as completely as possible by gathering the cost elements according to the logic of the above-mentioned process. For instance, if that process corresponds to three phases successively – buy, produce, sell –production costs would be added to purchasing costs plus merchandising expenses. Each type of cost would require optimal management according to the 'state of the art' in that field. Interestingly, in the gap between owner and manager in the running of organizations with this model, we find the engineer.

This socio-technical type of organization has the following two characteristics:

- an authoritarian model of operations as originally suggested by Fayol (Fayol, 1999 (1916));
- the distribution of ways of thinking and references from engineers.

These two thematics (that of cost accumulation and that of the 'dashboard') may be found at the beginning of the 'liberal moment' with activity-based accounting and the 'balanced scorecard'.

Activity-based accounting relies upon observations made in the early 1980s. According to many observers, traditional analytical accounting and related managerial styles were based on Taylorian organizational principles rather than on automation and the use of information technology. Productive performance was previously identified with cost minimization when the market was product driven (seller's market); however, this is not the case today with market saturation (buyer's market). Overall cost had usually been dominated by the cost of a dominant production factor, namely direct labor. Decreasing the role of direct labor to benefit from indirect labor, e.g., that of designers or computer technicians raises several questions. Indeed, it is no longer a case of managing labor but rather managing competencies.

Change was observed in the structure of organizations and costs with the decrease in the relative percentage of material costs, of direct manufacturing costs and, especially, direct labor costs plus the considerable increase of indirect costs in general or in manufacturing (industrial tertiary). As a consequence, some managers began to fight to include the increasingly important share of so-called immaterial factors (competencies, brand values, etc.). All of this was related to the decreased life cycle of products and managed services arising from greater competition caused by the oligopolies' changed methods of operation and it led to a change in how economic value was created.

Traditional management tools corresponded to an orientation in management accounting toward a world in which stock (inventory) had value. Hence there was the obligation to manage and maximize inventory and final products. The progressive generalization of the 'just-in-time' (JIT) organizational model gradually weakens this traditional aspect. In fact, a certain lag appears between the economic development of value creation and executives in accounting and management. In short, this means a clash in the bases of the methods of organizational governance. Current trends tend to reduce the production cycle to a period shorter than the management cycle. This leads to a deficit of management information. This last point also leads some researchers to see in activity-based accounting the premises of a shift from a creation model of economic value to another model, which would correspond better to contemporary management topics.

In sum, the so-called classical styles of industrial organization rely upon the division of labor seen as a functional division of tasks. This perception authorized the separation of product and process, a separation made possible through cost attribution based on analysis centers to products and services through labor units and the associated labor management methods. Just-in-time (JIT) management is fundamentally more inclusive. One may add that the development of activities (involving products and independently) led to a rethinking of cost calculation, as designed and validated by primarily industrial logic. These trends pushed the renewal of the legitimate model of organizational representation with its vocation of creating value.

The Financial Model of the Organization

The preceding organizational model used accumulation logic and the notion of activity. We now consider the organization as an entity of a financial nature, which represents the value created in light of the profit earned within a broad 'proprietary' ideology. In other words, the organization is considered as having been founded to generate revenue for its owners. As in the previous case, this is a 'way of seeing'. A 'real-life' organization does not rely more on either the first or the second model. Each and every time a particular vision must be 'constructed'. The logic associated with this second model is that of profitability.

The preferred perspective is a rather short-term managerial and financial one. The organization goes after profit margins and does not build anything long-lasting, except in terms of profit— the only long-lasting reference. Yes, along with the first model presented, one could say that a series of profits in the short term leads to survival in the long run and that the long term is built on a series of short terms. Organizational perspectives shaped through this type of model rely upon the division of 'centers of responsibility' as profit-making. Even if a center of responsibility resembles a stage of the process, its goal of profitability reveals the difference. However, in terms of the process model of an organization, this does not mean that a department would be anything other than a center of responsibility; i.e., the place in which organizational agents exercise responsibility. Yet, in terms of the financial model, one must consider the responsibility of a department according to its capacity to bring out the margins. The first reference in the financial model is efficiency, seen as the capacity to generate profit while economizing on the means. This involves a dynamic relationship set up between the margins and means consumption; moreover, the centers of responsibility are ranked according to a reading of the efficiency among cost centers, profit centers and investment centers. A cost center is a center whose output is not clearly measurable but whose existence is inevitable. Here it is worth mentioning discretionary cost centers, e.g. a corporate headquarters which faces the problem of capitalizing on the real performance of different administrations and whose financial breakdown corresponds to a declarative logic (representatives of the shareholders and executives decide what is what). With no clear measurement of output, the performance of a cost centre in terms of efficiency will be read using the criterion of cost minimization. The second reference is the profit center, that is the center of responsibility perceived as a unit within which products and orders are generated and, through comparison, a 'profit'. The goal of efficiency would be to maximize profit. The third reference, preferable in terms of the principles of the financial model, is the investment center, or an entity seen as a place where the measurement of efficiency is taken using a profit-investment ratio (PIR). That would be an entity in which the return (ROI) provides the preferred indicator in measuring performance.

If the way in which one sees does affect how one does things, then referring to such a model both validates and spreads it. Indeed, qualifying these centers of responsibility as cost centers, profit centers and investment centers leads to applying the logic of profitability to the organization (its process) as well as presenting the problems of connecting these centers in light of market logic. Transactions among the centers of responsibility within the organization are considered like client-supplier relationships among autonomous entities. They end up as a valuation based on the internal sale price, as if they were real transactions. Overall, profit-making entails accumulating local profits which in value management terms entails considering generated profits with the idea of 'capital costs' consumed by each center of responsibility. These principles serve to frame modes of corporate governance. The novelty of the 'liberal moment' comes from making this model a legitimate reference, ready to serve as the basis for real modes of management and from using this model in combination with the management methods which are supposedly those of governance.

Several lines of reasoning have sprung from this model. First, there is the initial choice of the productive combination which uses criteria like net current value, recovery, or turn around time, and the internal rate of profitability, which lead managers to prefer the processes that are 'lighter' and the most reversible in terms of their consequences notably of immediate profitability and thus their vocation to generate more profit with greater speed and lower risk, hence a financial value. This kind of reasoning ties into the situation that saw the reappearance of the real financial income [ndlt *rente financière*] as of 1980 and which set the tone for the ongoing discussion of governance. Indeed, this was governance that would maximize the value created for owners.

The Clash of the Process and Financial Models

Neither the process model nor the financial model may be considered better in that any model is a 'way of seeing'. Nonetheless, upon closer examination, there appear to be two evolutionary tales of the 'technostructure'. In both versions, economic history means domination spatially or geographically (first, Continental European and Japan; second, the Anglo-American world). Reference to the term *technostructure* highlights the engineerial inspiration underlying both models. However, interpretation differs when governance comes up. In *The Visible Hand*, Chandler (Chandler, 1977) tells readers the story of financial governance through the rise of American big business, ending up in the generalized, multidivisional form in which capitalistic management (that of the holding company) representing the capital will delegate to an 'engineerial' management, that of the process. This explains how what are now giant corporations operated. This engineerial perspective dominated during the post-war and early baby-boom period. Egalitarian orientations coming from WWII, suspicion of the firm, or 'société anonyme' (SA), and of its executives because of their participation in the Holocaust, or *Shoah*, and the stakes implied in the competition among political systems, basically East-West, made this the legitimate perspective in the fight against Communism. The reappearance of the important financial incomes during the early 1980s and the decline of the Soviet Union would favor and legitimize the financial model.

Waving the free-market flag, the shareholders (or at least the financial intermediaries who supposedly represent shareholders through the media) demand the right to a 'normal' remuneration as they become 'stakeholders'. With disciplinary governance, the pressure from financial market agents demands that technocratic executives be brought up to speed. After all, it is on the basis of their competencies that profit is generated. These business leaders may no longer use their positions and seize power *de facto*. In this way, a correlation perceived as positive is made between stock capitalization and corporate profits, which, in turn, leads to financial value as an indicator of this right. This is essentially a right to create some identity that confuses the image of the organization with its financial value. Increasing this value thus becomes a true obsession.

Let us consider the consequences of this way of seeing organizations in light of the criteria of governance; i.e., the following three categories: 1) regulation mode, 2) type of coordination, and
3) form of adaptation.

Figure 1: Comparison of the Effects of Governance Criteria (within the Framework of the Process and Financial Models)

	Process Model	**Financial Model**
	Socio-technical System	Market logic
Form of Governance	Material	Virtual
REGULATION	Rule	Transaction
COORDINATION	Hierarchy	Client-supplier relationship
ADAPTATION	Incremental or by leaps	Law of supply and demand

The forms of organization linked to the financial model 'expose' the socio-technical mechanisms of the process model to market categories and thus to seeing the business operations in terms of their profit-making capacity, given the amount invested at each stage of the process. In other words, the comparison between two equivalent organizations would require comparing efficiency, defined as their ability to pull down the largest possible return on investment. It is the governance of the socio-technical mechanism, which is related to knowledge available at a specific time and thus exposed to various forms of market logic that is considered the most legitimate, despite the ambiguity inherent in the mix of these two ways of seeing. Where organizational agents are active with reference to rules coming from engineering, e.g., 'the state of the art', they are considered to be operating on the basis of transactions within the financial model. That means a transaction may or may not take place in the way that expresses the interest of the organizational agent who acquires a good or a service from another agent. In fact, it all depends on his/her preferences within the context of maximization, e.g. maximizing costs and benefits. In other words, an organizational agent may be considered 'free', at least in theory, to not carry out the transaction with another agent within the same organization if it is not in his/her interest; i.e., not profitable enough.

Where coordination is hierarchical in the process model, actors operate according to 'client-supplier' type relations in the financial model. Where the organization develops, either by increments or jumps in the process model, - say the process is changed because the state of the art has changed —the interplay of supply and demand guarantees totally flexible adaptation within the framework of the financial model. The timeliness of the relationships forged among agents based on interest actually guarantees overall flexibility without any hierarchical type of 'decree'. Both in theory and practice, this is a case of reporting profits generated by doing what one did. In other words, this model answers the question *how much* rather than *how*, which was the focus of the process model.

At this point we can truly speak of the development of expectation in terms of performance.

3. The Notion of Performance

3.1. Introductory Remarks

First, let us point out the ambiguity of the notion of performance, heir to some systemic fuzziness in the sense that it deals with something arising from the interaction of elements within the same system. For example, by no longer using natural resources considered exhaustible, one may just as well use the inexhaustible human resources. Hence the notion of performance shows us that a form of obedience is required in terms of a non-debatable economic convention.

The notion of global performance as a materialization of organizational performance includes all the ambiguity of heterogeneous evaluations and heteronymous injunctions to be independent. Quite aptly, Bouquin (Bouquin, 2005) has described the topic of performance as "an ambiguous notion in the hands of ambiguous people".

Actually, the descriptor *global* may be perceived as coming from the organization *stricto sensu,* and from strategy and from organizational agents (with a special position given to the manager).

Global performance is a NOTION. It associates two generic terms. As a notion, it must be supported by CONCEPTS (epistemological formulations) in terms of OBJECTS (as in object of study from the field of the observable).

What are the related concepts? For example, is performance the accounting notion of results or the economic and ideological notion of profits?

What objects of study or observation do we mean? What problems are related to conceptualizing performance as OBJECT?

3.2. Global performance, organizational model or management topic?

The logic herein relies upon recognizing that it is difficult to speak of an 'object' like performance without any prior epistemological position. In other words, querying the evidence of what is performance and making the models and representations explicit as they are used to analyze whatever that may be, whether it be performance seen as an 'object' or performance seen as process.

Indeed, performance is considered as a concept, which enables the suppression of intermediation between representation and evaluation.

Let us first review what is implicitly involved in speaking of objects. One of the contacts with the 'objects' mentioned is usually discourse. The problem thus becomes one of revealing the representations promoted through discourse without, however, masking the co-production of discourse and the representation that it generates. Discourse indicates representation and *vice-versa*, representation indicates discourse. In other words, talking about performance belongs to a legitimate form which allows one to discuss it; i.e., a legitimate form that will in itself lead to actions that move in the direction shown by the way of speaking. The interactions between discourse and representation are worth remembering at this point. The very weight of representation is essential in that it orients interaction and creates the elements of reality, which follow the content of the representations.

The first level of representation, the one that gives content to a concept and designates the 'object' is that of the model seen in its classic sense; i.e., a reduction of reality as a simplification of that same reality. This two-pronged process is also called modeling. In this respect, one may create models forever. However, what counts here is also the justification of the model. The process of justifying a model will indeed limit the production of models; i.e., 'wearing out' some and generating others. Hence the need to question the production conditions of models and also the need to learn why some models become prominent at one point while others disappear.

Yet simply speaking of reality begs the question of the basis of that reality, either in terms of a perception— reality considered as built upon a basis of objective elements— or upon a basis of representations. In fact, this raises the question of the observer's position. A model also puts forth the problem of the existence of content within the model, content that lets one speak about it. In fact, image and metaphor enter at this stage. The image acts as a mediator while the metaphor makes the discourse promoted through images more creative. Once again, questions about the relationship between a model, an image and a metaphor abound. Reference to ideology makes it possible to speak to this issue.

In fact, speaking of metaphor with respect to performance means questioning the transfer that metaphor enacts. Is it a metaphor of profitability or one of efficiency?

A model as both a reduction and a standard possesses two characteristics of ideology: simplification and incantation. Speech that uses images and metaphors reinforces that 'incantation' component. In fact, these characteristics are treated here. However, we keep in mind what constitutes the ideology of the 'liberal moment'; in other words, the 'correct reasons' to speak about performance.

We might also review the four criteria used in building an organizational model, as suggested by Hatchuel: (Hatchuel, 2000, pp. 9-14)

1. A vision that goes beyond organizational techniques;
2. A surpassing of sectorial specificities;
3. A milieu with existing institutions, e.g. schools, researchers, professional groups, that allow for the creation and dissemination of the model;
4. A few concrete accomplishments.

We should point out here the distinction that between an organizational model and a management topic. First, a management topic stands out from a fashion by its duration (approx. one decade). It comes with a management vision, which unites the objectives. For example, quality went chronologically through product quality, supplier-relationship quality, client-relationship quality and managerial quality; i.e., a mixed bag of elements. Management methods, which exist outside the semantic field of quality management were also reinterpreted (e.g., quality certification and supervision). Even neighboring fields end up together, like ergonomics, with the sense of quality implied in finding and correcting human error.

A topic gives the illusion of novelty. Performance as a management topic includes elements that support the reinterpretation of the 'genesis' of performance. There will be reference therein to some social interaction, procedures, and values... However, upon closer examination, there is always a 'reinterpretation-emphasis' involving something that already existed. A management topic provides a symbolic and imaginary dimension. This dimension will continue to color a managerial representation for a long time. Perhaps the notion of global performance, 'yoked' as it is to corporate social responsibility (CSR), expresses a managerial topic rather than a real organizational model, despite the instrumental appearance of performance.

3.3. Performance, a Polysemous Notion

The word performance comes from Latin, but the term entered the English language as *parfourmen* meaning to do, to carry out or to render, in about 1300 through Norman French. It appears again some seventy years later as *performen*, borrowed from the Old French *parfornir*. The French meaning was much the same as the English, e.g., to do or carry out. In the fifteenth century, to perform derived as a verb from the noun performance in English. It meant the result or accomplishment of a process or task with the consequent results and the success that one might attribute. Already it is possible to stress the 'performative' aspect of the notion; i.e., the ideas of obtaining effects, creating a transformation and suspecting the ideological content. In fact this is Ehrenberg's hypothesis in *The Cult of Performance.* (Ehrenberg, 1991) He describes society as becoming both entrepreneurial and athletic because of the importance given to sports, to glorified commerce and to social success. Our own society thus exemplifies how the champion constitutes the symbol of social excellence and how the *homo performans* shows him/herself to Others to get attention. Performance is thus both a dogma and *ethos* that make the individual responsible for his/her life. Performance may also be associated with a sort of narcissism that is given a form of normalization of the investment by excess. As Aubert (Ehrenberg, 1991) highlights, performance links one's intensity within a professional context and investment in work to a sort of continuum established between a passionate belonging and a hyper-functioning of the self.

The ideology of performance raises several questions:

- That of its ‘porosity’ with respect to several areas of social life, especially with the premium given to any quantification;
- That of the meaning given a model of competition in which performance is valid only in comparison by exaggerating the competitive factor;
- Valorization of the effect, fruit of a glorified desire;
- The vindication of ‘causal and instrumental reasoning’ because performance fits into what is necessarily a teleological order that aims to operationalize the individual;
- The priority given to individual autonomy, the unthinking of one’s ambivalence by acting as if performance referred to an established framework;
- The use of the notion of performance as synonymous with success or even its use in combination with success;
- The need for limits without which seeking performance leads to exhaustion.

At the same time, however, this is a notion based upon the idea of creation, which seems to say referring to performance is equal to wanting to show the existence of an act of creation. Strictly speaking, performance is a quantified result used with a view to ordering (*vis-à-vis* oneself, improving one’s own performances, possibly in terms of others...). Evaluation of performance is thus built with a referent, with a scale of measurement. In the physical field, performance is considered a ‘useful’ effect in terms of the object, hence the reference found in the dictionary: performance - the qualities characteristic of execution (acceleration, maximum speed, autonomy, etc.) of which a car or airplane are capable. The most common reference today relates to sports as conventional play; i.e., the conventions establish the references used to measure and judge performance. Together, measurement and judgment constitute the process of evaluating performance. Top-level sports become a sort of archetype of the mastery of nature in that appropriation means surpassing one’s self. In this way, athletic pursuits rely on respecting the rules of the game and the game with its rules within a society that also glorifies innovation. This inherent imbalance is far from Aristotelian prudence. Yet it is also the scapegoat of the ‘doped’ society, as Queval points 2004). The notion also includes the idea of victory over a higher ranked opponent. In short, the exploit of remarkable success also appears, hence the link between performance (invisible as a combination of various aspects) and success (visible).

With performance, the performative aspect triumphs (the effect achieved). One of the aspects actually contributes to the mythification of performance and the heroes who personify it. Performance also raises the question of possible repetition so that performance may be used in the plural. This is undoubtedly the main managerial sense. As is the case when people speak of maximizing profits and repeating that maximization. Performance then becomes ‘mannered’ in the sense that it relates to the art of taking into account habits representative of the state of the art. Here we see a multiplication of sites of repetition and of virtuosity. The organization — not to say the company — is one such site. As Heilbrun (Heilbrun, 2004) points out, performance becomes the holder of any form of singularity. However, along with an order in accessibility there is an order in the target. Performance might not be repeatable precisely because it is a performance. Even when trying to be repeated, performance creates the kind of surprise that requires some recognition. Performance thus includes the duality: ‘formal authority relationship- autonomous regulation’. On the one hand, performance follows the logic of repetition; on the other hand, performance highlights the gap between prescription and manifestation by the surprise that it generates (hence the current use of the notion ‘stakeholder’ for those who speak of ‘global performance’). In this sense, performance designates individuals or organizations for their peers and tends to justify transgressions, e.g., the classic reference to ‘best practices’, first from observed results and then from reasons at the origin of this performance. Marcelli (2004) discusses the possible passage from a democracy to an ‘egocracy’. Performance thus places society in the future and not the past. It blurs the importance given to the logic of lineage and its potential for identification. As performance is inscribed in the future, it has given our societies a fantastic power to invest but it also created problems in cultural constructions of identity since past references become secondary. The individual finds him/herself in the trap of repeating the novelty.

In a way, performance also expresses the meritocratous model of justice, which sets out both the moral of the winners and a hatred of the defeated. It is a cruel model. At the same time, however, in political philosophy, it is a term that opens the field to being associated with other principles, which brings us back to the cruelness of this model of justice. The same applies to the principle of difference, or affirmative action, so that performance as a principle follows the same sense of corresponds to a principle of justice so as to limit the burden of proof in performance and multiply the distinct spheres of justice. Therein lies the seed of communitarian liberalist logic. In other words, to each group its own version of performance!

Performance also belongs to the esthetic. In fact, this meaning appeared in the American art criticism vocabulary in the early 1970s. Performance art applies to any artistic manifestation in which the act or gesture of execution has its own value and leads to a distinct esthetic appreciation. What characterizes performance is its spontaneous outpouring. It is the configuration of presence here and now, (the happening) more than the result. Here performance hearkens back to the ancestral oral tradition. It applies to different fields of artistic expression including music, e.g. John Cage and his silent piece lasting 4.33 seconds; dance with the late Merce Cunningham; and painting in terms of body art. The accent falls on what is unique. Performance is thus both presence and party. Global performance inherited from this meaning in that it is state and process, just as organization is organization and organizing.

Performance is also narrativity. Lyotard, the late French philosopher, sets out the main distinction between ‘performative’ theories and narrative discourses. Performative theories justify modern science and the various technological developments of the twentieth century. These theories may be translated by the discourses of ‘legitimization’, which focused on the ‘positive’ criteria of coherency and profitability. Whereas narrative discourses are characterized by “incredulity regarding these *métarecits* [overarching plots]”; in other words, indifference towards stories of this type and more generally towards the justifications supporting the triumphant modernity.) The ‘post-modern condition’ opposes the ‘non-power’ of narrative knowledge, (necessarily demolished and discredited by the surrounding positivism), to the modern ideal of increased power and efficiency as optimization of performance in its utilitarian meaning. However the form of narrative knowledge is the tale. This knowledge haunts us, fans the ‘postmodern’ fire in us, even though we still face the consequences of modernity and calculating thinking. Performance is thus seen as a ‘ritual execution’ closing the chapter of ‘performative theories’.

The word serves as a catch-all in that it includes both the action of performing and the finished state.
The management meaning contains the idea of:

- Performance as ‘result’, which must be linked to a referent (objective). Performance represents the level of achievement of objectives. It is implicitly or explicitly part of a causal model seeking to limit the impact of the exercise of responsibilities. Performance thus constitutes a metaphor of responsibility and serves to justify the systems of ‘contribution-retribution’.
- Performance as action enables us to distinguish between competence, (the ability to act, to complete a production) and the performance itself (actual production). There is performance once it is possible to observe the passage from potential to achievement. Hence this sense of performance refers to the process and not only the result.
- Performance as ‘success’ occurs when success is not immediately the attribute of performance because one must take into account the more or less ambitious nature of the objective set and the social conditions of appreciation of success and thus introduce categories of judgment/evaluation with regard to a referent. “A performance is neither good nor bad in itself. The same result may be considered a good performance if the objective is ambitious and a poor performance, if the objective is modest”. Hence the importance of efficiency within an

environment and the duality of the object of evaluation and the evaluating subject. Bessire (Bessire, September 1999, pp. 127-150) adds the idea of a rational component coming from the implicit validation always attributed to 'managerial voluntarism'. As in loyalty, the distinction appears between a dyadic perspective, which restricts the relationship to the link between 'object of evaluation and evaluating subject, and a triadic perspective, which adds the existence of an external referent to the evaluated object and evaluating subject.

In fact, Staw (1986, pp. 40-53) underscores that performance measurement systems (PMS) may be categorized according to their focus on 1) the individual (Western); 2) the collectivity or organization (Asiatic). Systems oriented towards individuals will try to forge links between individual performance and rewards. The management meaning of performance thus includes the idea of the company being shaped by the decisions made whether they are imputed to individuals or considered the result of group behaviors, which may be considered positive. Bourguignon stresses that performance is a social construction that exists only if we can measure it. That measurement, however, cannot be limited to knowing a result. Corporate performance could thus be considered the driving force of economic prosperity, according to the 'liberal vulgate'. However, this type of thinking should not be followed blindly, e.g., in cases like the Mad Cow scare in which health risks become the costs of economic performance.

The issue of measurement remains key and brings together the following characteristics: 1) pertinence (in terms of the object of the performance); 2) effectiveness (in the evaluation of effects); 3) efficiency (the order to economize resources); 4) external defining elements (to allow comparisons) and 5) internal defining elements (to allow for the relativity of situations being measured) and periodicity (to ensure the preeminence of the chronology of economic time). The descriptive virtue of measurement thus enables performance to fit into the perspective of decision-making aid. The metrics may guarantee clarity while also implicitly being a sort of 'pre- judged' element. As a result, the measurement of performances anchors this notion to an informational meaning of organizational life, which leads to the predominance of a factual perspective.

In global performance, there is the idea of a link 'allocation- yield/retrieval'. In other words, what yield did we get from what we allotted? Yet at the same time there is the idea of mobilizing whatever has been allotted to obtain results. Evaluation has two natures: cognitive and regulatory.

With global performance, there is also the idea of relativity, given the diversity of viewpoints and chronology. Expressed simply, performance immediately raises the issue of evaluating performance (financial evaluation; personnel performance evaluation; evaluation of ecological and societal consequences; program evaluation, project evaluation, as in the public sector). The notion of measuring performance becomes associated with that of 'monitoring results'. Bouquin (2004) defines measuring performance as 'evaluation *ex post* of obtained results'. Bescos *et al* (Bescos, 1991) use expressions like follow-up, monitor, result measurement, to designate the process of budget monitoring, analysis of gaps or differences and performance measurement or performance evaluation to designate the three processes of management control which are 1) setting goals; 2) having a system to measure results; 3) having a system of 'rewards-punishments'. Performance cannot, therefore, be described using just a comparative measure between the value of income and output. In short, the list of possible elements to be taken into consideration has no real limit.

Here, however, we must underscore the extraordinary superiority given to any monetary measure. Also the ambiguity of this situation should be decoded according to the context of the monetary valuation. As you know, money has three basic functions: 1) exchange; 2) measure of value; 3) reserve of value. If the indicator expressed monetarily emphasizes exchange, it certainly may motivate setting up an organizational dialogue. If, on the other hand, the same indicator emphasizes value measurement and value reserve, it becomes a monologue for those who benefit from capturing this value. The financial aspect dominates thus legitimizing an ideology of financialization. Naturally, just speaking of 'global performance' reveals the rut of the monologue which came from the univocal reference to financial value, and the expression of a form of managerial will attempts to re-establish some dialogue.

Measuring performance inevitably brings up the following questions: Does a single 'dominant' indicator suffice or is a combination of several indicators needed for performance evaluation? In both cases, is it necessary to throw one's self into the development of an impossible perfecting of measurement? In other words, with performance measurement an inevitable tension between simplification and complexification is played out, yet this tension remains inherent in the management process.

Without a doubt, one of the effects of measuring performance is to lay the foundations of the management process itself. This overlaps then onto the more general issue of the organization, as the support of this performance; it thus emphasizes a rather functionalist conceptualization. So, one should measure to act and act to modify the result. In other words, here is the basis of an action model found in the rational steps, which make up the most established belief in the field of management. De la Villarmois (Villarmois, 1998) distinguishes between two dimensions of performance: one objective dimension that is economic (efficiency) and systemic (durability of the organization) and another subjective dimension that is both social (HR) and societal (legitimacy of the organization).

Performance thus includes the idea of quality of production (value judgment) but also the setting up of an identity angle (to benefit from the performative aspect) which relies on the belief that performance may be measured and that it is 'good' to use some form of comparison or relationship with something that occurred. In terms of representation, performance certainly creates a spatio-temporal break.

Lorino (Lorino, 17-19 May 2001) puts forth the problem of defining performance using the postulate that, if we admit performance is essentially economical, it is identified with the net creation of wealth (creation minus destruction), because the organization consumes resources in order to produce. However, this approach to performance is rarely sufficient as it raises two major problems:

1. If we suppose that performance may be defined simply as the ratio between one measure of value produced and a measure of the resources consumed, the time horizon remains a question.
2. Besides, in most cases, the ratio of 'value to costs' has meaning only at a fairly broad organizational level. The lower one goes into the smaller operational units, the more difficult — even impossible— it becomes to compare costs and values. Different teams consume resources to contribute to creating value, which will only be observed elsewhere and sometimes very faraway in the organization, and only once their contribution is combined with others.

Not surprisingly, there are serious questions that need to be answered:

- How can one individualize the effects of a given operational performance on the financial results when the causal relationships are complex and imply many inter-related factors?
- Which time horizon should be selected? If one controls the non-financial objectives by synchronous financial objectives then the lag between operational performances and financial impacts does not matter. If we control the non-financial goals by considerably older financial objectives, control comes too late to correct strategies.

4. Conclusion: The Dominant Vision of Managerial Performance Reduced to Financial Performance

The classical dimensions of performance: effectiveness (capacity to achieve objective(s) with certain restrictions); efficiency (capacity to achieve objectives with an economy of means); and pertinence (relationship with chosen opportunities). The whole issue of performance may be viewed in terms of the tension between the retrospective side of measurement and the *prospective* (French equivalent of *foresight*), or 'forward-looking' side of the use of the measurement.

What follows may be considered the grand 'models' of performance:

J.D. Ford and D.A. Schellenberg (Ford & Schellenberg, January 1982, pp. 49-58) teased out three conceptual perspectives:

1) approach by objectives in which the corporation is considered to follow identifiable goals, performance thus means achieving these goals;
2) systemic approach, which highlights the complex relationship between 'organization-environment' in which performance consists of mobilizing resources and assigning them so as to achieve objective;
3) stakeholders' approach in which performance consists of taking into account the interests of the stakeholders. Performance is thus the satisfaction of the stakeholders.

R. E. Quinn and J. Rohrbaugh (Quinn & Rohrbaugh, 1983, pp. 363-377) distinguish three dimensions of organizational performance with 1) the 'internal-external' duality (individual development inside organizational development itself); 2) the 'flexibility-control' duality and the 'means-results' duality (from process to productivity).

K. S. Cameron and D. A. Whetten (Cameron & Whetten, 1983)consider the organization as a set of imperfections and difficulties hence they judge organizational performance as the ability to confront that set.

E. Morin and A. Savoie and G. Beaudin (Morin, Savoie, & Beaudin, 1994) list four conceptualizations of effectiveness: the economic concept (goals to reach); the development of organizational agents; the systemic concept (fulfill objectives while conserving means and resources), and the political conceptualization, which is linked to relativity from the evaluator's point of view.

The difference between the French meaning, which likens performance to an exceptional production, and the English, which signifies result or even evaluation made after the results have been obtained according to expectations, leads to placing performance in measurement. The attending concept of performance is that of financial performance, which today may be understood as audit of the profitability demanded by the shareholders. In this sense, performance may be linked to organizational perspectives in terms of measurement and achievement. Financial performance and the subsequent organizational modalities are completely interdependent.

Even beyond the linguistic reduction, the reduction of performance to financial performance may be criticized on the following points:

- the existence of limits in terms of the possibilities of comparison among different entities (on the basis of their size, nature of their activities, specificities of their operations);
- the risks of confusion in time horizons means that the profit margin may be affected by short-term logic while assets stem from long-term logic;
- the legitimacy of the budgetary 'machine' (conceptual as much as organizational, in particular its conservative aspect, e.g., habits, recurring discourse, established situations, etc.);
- the technical limitations of associated computerized procedures;
- the quality of the figures;
- the confusion among an analytical view, a synthesizing view, and panoramic view.

In the end, any logical reasoning on performance requires questioning its basic tenets and the means of representation.

5. Epilogue: From Managerial Performance to Societal Performance

Societal performance is illustrated by the results reached in terms of a capacity to manage and to satisfy the stakeholders. However, let us not forget the ambiguity surrounding the very notion of stakeholder!

As highlighted above with reference to the ideological component of performance within a form of contractualism crossbred with proprietarism, the use of the notion of global performance provides one of many signs of the institutionalization of the corporation. The vocation of this institutionalization is to participate in the defining of the 'Common Good'.

Questioning the political component of what is now operating as global performance in corporations means asking about the shift from a 'knowing', or a knowledgeable state, i.e., an institutional mechanism in which questions related to knowledge and power are asked, to a knowing or knowledgeable organizations in which the same questions are being asked today. This is what Michel Foucault pointed out. By intervening in the definition of the 'common good' with regard to development and through the will to apply managerial categories to all organizations, the corporation has made managerial voluntarism 'outdated' on the basis of the two-pronged argument of utility and efficiency. The size of the multinational corporation and power that is wields (like the power accumulated by corporations in general) leads them to intervene in the definition of the rules of living in society. This is achieved through reference to Corporate Social Responsibility (CSR). However, these same corporations find themselves solicited not because they want to be but because they cannot do otherwise. Having become 'substitutes' for public authorities (sometimes defective, of course, as in developing countries), they nonetheless erode the conditions of the constitution of a State. This phenomenon has been buttressed by the public service's massive adoption of corporate management styles and tools. From a micro-political viewpoint in management tools, we have shifted unwittingly to a macro-political viewpoint in defining the 'Common Good'. Liberal democracy, in its project to take over from economic liberalism, has been modified in substance on the issue of bio-power through a modification of the contents of the 'reason of state' (also called 'national interests'). Moreover, the quest for global performance is trapped in views of *governmentality*. This recalls Foucault's point in mentioning the arrival of governmentality. (Foucault, 1988, p. 655) in the sixteenth century. Actually, *pace* Machiavelli, Foucault puts forth a problematic not of order but of conditioning so as to confront problems of power. In the end, perhaps global performance could be considered one of the archetypes of conditioning?

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REALITIES AND PERSPECTIVES

Growth and Inequality in Italy
Over the Long Run (1871-2001): Trends, Patterns, Implications

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Abstract: This article presents estimates of social and economic indicators for Italy and its regions, from 1871 to 2001: life expectancy, education (literacy and years of schooling), per capita Gdp, and the human development index. I discuss State intervention in promoting convergence and argue that this was more effective in life expectancy, important but inadequate in education, more expensive and less successful in Gdp. In human development, convergence took place from the late nineteenth century until the 1970s, then significantly slowed down. A broad interpretative hypothesis, based on the distinction between passive and active modernization, is proposed to account for the patterns.

Keywords: Italy; Regional development; Hdi; Gdp; State intervention

Les observations sont l'histoire de la physique, et les systèmes en sont la fable.

(Montesquieu, *Pensées*, no. 163)

1. Introduction

Italy's regional inequality has been vastly debated, but the reconstruction of the historical pattern is not satisfactory yet. In terms of Gdp, there is by now large consensus on some basic facts regarding the previous century, which can be summarized as follows:[2] North-South differentials increased in the first half, until the Second World War, whereas at the same time regional differences decreased within the three economic macro-regions (North-West, North-East and Center, South or *Mezzogiorno*); South's convergence took place in the economic boom of the 1950s and 1960s, but came to a halt in the 1970s and the *Mezzogiorno* remained far below the national average, unlike the north-eastern and central regions which converged toward the North-West in the last decades. Still there is uncertainty surrounding post-Unification Italy, the determinants over the short and the long run, as well as specific economic indicators and sometimes the exact figures and the pace of convergence and divergence; but not the general pattern mentioned above. This speaks about the failure of southern Italy to catch-up with the rest of the country over the long-run: all the more a dismal result, because the problem of the South (or *questione meridionale*) has been in the political agenda for over a century, the convergence of the economic boom had raised many hopes to bridge the economic divide, and since – not least – massive regional policies were pursued by the Italian state throughout the second half of the twentieth century. More recently, frustration left room to resignation, from which in the last decades a new approach to the 'Southern Question' has emerged: based on the category of 'diversity', rather than of 'backwardness', when it comes to compare the South with the rest of the country. With important exceptions,[3] many 'meridionalists'[4] got progressively involved in this reconsideration:[1] once it was

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[2] Felice, "Regional Development." With reference to Post-Unification Italy, see also Fenoaltea, "Peeking Backward."
[3] E.g. Galasso, *Il Mezzogiorno*.
[4] As scholars on southern Italy are usually called: such a label may be analogous to those (orientalists, africanists) proposed for researchers on countries with structural characteristics supposedly different from those of the western world, and which therefore may also obey different rules of historical and social inquiry. See Said, *Orientalism*.

realized that western progress was partly denied to the South, this turned out to be unworthy or undesirable. As efficaciously noted, these meridionalists looked like such a husband who, having been betrayed by his wife, would go around speaking against all the women in the world.[2]

This paper assumes that (western) progress – here called 'modernization' – is worthy and, after all, desirable; thus the lack of convergence in per capita Gdp should be regarded for what it is, a disappointing (and not at all inescapable) conclusion. But things are a bit more complicated and here we propose a more articulated picture to account for the inequality pattern in Italy's regions. First, progress or modernization has many facets and surely it should not be measured only in terms of per capita Gdp. Secondly, the South's performance could not be so gloomy, when considering other measures such as life expectancy or human development. Not least, so far very few research has been made in order to relate the different facets of modernization, and even less to build an interpretative framework which would allow for their different paths: scarce empirical work for southern Italy, few historical analysis for other regions and countries too.

The article aims to move some steps toward this goal, via reviewing and testing the hypothesis of 'passive modernization' first advanced by Luciano Cafagna more than twenty years ago, and thus by presenting and discussing the pattern of social indicators in Italy's regions over the long run (1871-2001) in view of this possible interpretative framework. In the following paragraph the basic concepts about active and passive modernization will be exposed and partly re-formulated with regard to regional analysis. The second, third, and fourth paragraph will focus on the historical evidence for Italy's regions, by examining the regional figures for life expectancy, education, and income and human development respectively, and by discussing their convergence and determinants. The last paragraph will propose a synthesis and a draft scheme to account for state intervention and passive modernization in Italy's regions, to be possibly tested in other contexts.

2. On Modernization

We define modernization in a way more inclusive than the strict economic approach. This latter is focused on technological progress, whose result – broadly speaking – is the rise in productivity and thus in per capita income: accordingly, per capita (or per worker) Gdp should be taken as the prime measure of modernization. To Gdp (or 'resources'), we add two more 'dimensions',[3] following the capability and human development approach as defined among the others by Sen.[4] One dimension is life expectancy, or 'longevity', which reflects a broad range of social characteristic and dynamics, such as the health systems and conditions, the spread of basic hygienic infrastructures, as well as in part the demographic transition. Many would agree that these are crucial aspects of modernity, not entirely neither properly incorporated in Gdp measures; moreover, we should assume that to live a long and healthy life is by itself a positive goal of every human being. The third dimension is 'knowledge', here measured through education (literacy, school attendance, per capita years of schooling): again, the spread of mass education, primary and later secondary and tertiary, is another remarkable feature of modernity, not directly included in Gdp accounts.

Resources, longevity, and knowledge are often correlated: education may be a determinant of Gdp growth – literature would be huge, from the early remarks by Cipolla[5] or Abramovitz[6] up to the bayeasian models[7] – but indeed it has been argued that longevity too may favour a rise in per capita Gdp, for example via increasing productivity, i.e. human capital accumulation.[8] In turn, per capita Gdp

[1] E.g. Cassano, *Il pensiero*.
[2] Cafagna, "Modernizzazione," p. 240.
[3] As the components of the human development index are usually referred to in theoretical literature.
[4] Sen, *Commodities and Capabilities*; Anand and Sen, "Human Development Index."
[5] Cipolla, *Literacy and Development*.
[6] Abramovitz, "Catching up."
[7] Sala-i-Martin et al., "Determinants."
[8] Acemoglu and Johnson, "Disease and Development," are probably the last ones; Barro and Lee, "Sources," the first ones, at least via econometric testing.

has a positive effect on both life expectancy and education: for example, via raising the amount of money to be spent on health and school services, both in absolute and as a share of the total income. However, empirical evidence indicates that this three-fold correlation is not always obvious,[1] although largely correct. No doubt, the inclusion of life expectancy and education reveals a major attention towards redistributive goals, but here this is not even the point. At a first instance, this paper limits itself to a clear-cut approach (and assumption): resources, longevity and knowledge are all basic and different components of modernity, at least in the way it spread over the nineteenth and twentieth centuries, and thus we should consider all of them to account for modernization in Italy's regions. For what regards possible correlation, we generally take for good the main findings of the vast literature on these topics, since apparently do not contrast with evidence for Italy's regions:[2] knowledge is a determinant of both longevity and resources, resources are a determinant of both longevity and knowledge, longevity can have some (weaker) effect on knowledge and resources. At a second instance, these assumptions allow us to summarize the historical experience of State intervention and modernization in Italy's regions into a draft scheme, which could be tested in (and extended to) other contexts.

How does State intervention promote modernization? This takes us to the distinction between active and passive modernization at the regional level. According to Cafagna, we have active modernization when one or more subjects – political or social actors – take up the challenge of and engage in 'modernizing' the country. These actors implement a coherent strategy and are usually organized in what Antonio Gramsci called 'historic bloc': they control key institutions (mainly the central State) and enjoy support from the prevailing ideology and cultural milieu.[3] Examples are not only liberal Italy, but also Prussia, Russia, or Japan; by this regard, active modernization may be regarded as a complement to the Gerschenkron's approach on economic backwardness and catching-up.[4] Conversely, we have passive modernization when a society embarks upon some sort of modernization without the presence and thus the role of a dominant modernizing 'bloc'; as a result, modernization is often partial and incomplete. If in this latter case modernization is somehow extraneous to the community, in the former we have 'identification', in Cafagna's very words,[5] between the elite which advocates modernization and the rest of the community which complies with it. The author points out that passive modernization can occur both at the national and the regional level, and that this latter was the one experienced by southern Italy over the last century. He adds that instead active modernization can be implemented only at the national level. We depart from Cafagna at this point.

As defined above, in fact, the distinction between active and passive modernization may be useful to account for the second industrial revolution and the coeval social improvements which, in Europe at least, spread under the umbrella of national states and policies. But it gets somehow problematic when we want to extend it to the long run, to the different waves of technological and social changes as well as to the institutional reorganization of the last decades: the growth of services and the ICT revolution from the 1970s, the new role of the region within the European Union and, more specifically to Italy, the rise of industrial districts in the northeastern and central regions over the second half of the twentieth century. In this case, for example, the role of local institutions and elites can hardly be dismissed and in fact it has been widely recognized by historians and economists.[6] Besides, in Italy the

[1] A few exceptions are well-know. In Cuba per capita Gdp is low, but the island can boast health and educational standards (almost) comparable to those of the most advanced world. Limitedly to market economies, in the last decades the US-Europe Gdp divide was on the riseg, but the US scored lower life expectancy: a discrepancy which may be due to higher household income inequality in the US, as well as to the role of public health services in Western Europe.

[2] Benchmark year figures and the limited number of cases, however, prevent us from running more serious econometric tests.

[3] Cafagna, "Modernizzazione."

[4] Gerschenkron, "Economic Backwardness."

[5] Cafagna, "Modernizzazione," p. 235.

[6] Again the literature would be huge: e.g. Bagnasco, *La costruzione*; Becattini, *Il calabrone*; Putnam, *Making Democracy Work*. See de Cecco, *L'economia di Lucignolo*, for a dissenting voice which emphasizes the role of the national State in releasing fiscal and legal checks and in currency depreciation.

the regions were officially created and became operative in the 1970s:[1] since then they have seen periodically enlarged their competences and duties, so much so that these may have significantly impacted upon crucial determinants of modernization, from the health and education systems to the industrial subsidies. In short, when it comes to the last decades of the twentieth century the political and social actors actively engaged in modernization must be searched out and found both at the national and local level; even though the role of different institutional players can make this approach more difficult to be tested on empirical grounds.

Since this paper takes a long term view, by assumption active modernization is not central, although important. Besides, it is outside our scope to compare the performance of local institutions, as well as to discuss the possible determinants of active modernization in the last decades – such as social capital, to quote probably the most popular one (at least for Italy).[2] As mentioned, the main goals are to present and discuss regional figures on the long run, then to sketch an interpretative hypothesis based on the evidence of passive modernization. The questions we are going to answer are the following:

1) in Italy's regions, what was the inequality pattern in social indicators (life expectancy, education, human development), and how different from that in per capita Gdp?

2) is the difference referable to the role played by passive modernization, as long as this can spread in some 'dimensions' more easily than in others? In other words, can modernization vary in time and pace accordingly to the different measures, and how this difference should be accounted for? Hopefully, this point may appeal also to those not fond of Italy's regional development.

Before we turn to empirical analysis, some general remarks are warranted, concerning the way inequality is measured. For all the dimensions, we employ the equation first introduced by Jeffrey Williamson:[3]

$$D = \sqrt{\sum_{i=1}^{n} \left(\frac{y_i}{y_m} - 1\right)^2 \cdot \frac{p_i}{p_m}} \tag{1}$$

where y is the indicator (life expectancy, education, value added, human development), p stays for population and i and m refer to the i-region and to the national total respectively. Williamson's index must be regarded as a measure of sigma convergence, i.e. of the decrease of dispersion: it follows the same rational as the standard deviation, but looks more appropriate in measuring convergence across regions which are different in size, since it weights deviations with the corresponding share of population.

3. Life Expectancy

Table 1 reports life expectancy estimates for Italy's regions, in benchmark years from 1871 until 2001.[4] In the last rows, three measures of regional inequality are considered, all from Williamson (1) equation. The first one is drawn from the figures of the table. The second measure, called 'normal', incorporates the formula of the longevity component of the human development index (henceforth Hdi):

[1] Putnam, Leonardi, and Nanetti, *La pianta e le radici*.

[2] Which indeed was called into question also for post-Unification Italy, to explain economic growth, thus implicitly making an argument for regional active modernization also in the second industrial revolution: A'Hearn "Institutions;" id., "Southern Italians."

[3] Williamson, "Regional Inequality."

[4] Figures are from Felice, "I divari regionali in Italia," who, in turn, is based on the unpublished estimates by Conte, Della Torre, and Vasta, "The Human Development Index."

$$\frac{\text{Life Exp} - 25}{(85 - 25)} \qquad (2)$$

which is used to replace y in (1). The third one, the 'improved', is instead from the improved human development index (henceforth IHdi):

$$\frac{\text{Log}\,(85 - 25) - \text{Log}\,(85 - \text{Life Exp})}{\text{Log}\,(85 - 25)} \qquad (3)$$

and implies a convex achievement function: at a higher level, an increase in the standard of living involves a greater increase in life expectancy, which makes convergence more difficult over the long run. Leandro Prados,[1] who pioneered the use of IHdi in economic history, lowered the maximum and minimum values to 80 and 20 years respectively, but here the original values (85 and 25 years) are maintained, not least because by 2001 some Italian regions have overcome the 80 years threshold. It goes without saying that, in both the 'normal' (2) and the 'improved' (3) equation, the minimum threshold increases differences and thus the resulting regional inequality index.

Table 1. Life expectancy at birth: regional Estimates (YEARS)

	1871	1891	1911	1938	1951	1961	1971	1981	1991	2001
Piedmont					66.32	69.95	71.48	73.91	76.88	79.68
Aosta Valley	37.10	43.90	47.65	60.51	62.13	67.82	69.93	72.83	75.75	78.51
Liguria	35.70	41.60	46.66	61.82	68.32	71.88	72.91	73.92	76.48	79.62
Lombardy	33.50	41.10	42.25	56.94	64.44	68.94	71.18	73.30	76.60	79.70
North-West	*34.90*	*41.50*	*44.48*	*58.77*	*65.50*	*69.62*	*71.48*	*73.55*	*76.66*	*79.68*
Trentino-Alto A.	-	-	-	60.57	64.16	68.90	71.15	73.41	77.08	80.63
Veneto	35.20	44.30	47.59	59.96	66.76	70.29	71.90	73.42	77.31	80.44
Friuli	-	-	-	60.57	70.65	70.43	71.17	72.83	76.38	79.92
Emilia	32.90	40.20	47.57	61.18	67.90	71.19	72.86	74.49	77.23	80.20
Tuscany	31.00	41.60	48.19	61.69	68.22	69.79	73.43	75.15	77.84	80.41
The Marches	34.20	41.20	48.92	60.57	67.36	71.83	74.06	75.51	78.41	81.29
Umbria	36.60	40.80	48.77	60.89	68.00	71.88	73.48	75.26	77.75	80.50
Latium	29.10	39.60	45.17	58.72	66.27	70.79	72.43	74.31	76.79	79.47
North-East, Center	*33.00*	*41.70*	*47.63*	*60.45*	*67.41*	*70.61*	*72.60*	*74.30*	*77.29*	*80.20*
Abruzzi	30.70	35.80	45.62	58.48	65.10	71.20	73.56	75.50	78.00	80.69
Campania	30.70	35.80	38.91	56.48	63.15	68.29	70.35	72.34	75.48	78.37
Apulia	30.70	35.80	40.33	54.20	62.73	69.36	72.28	74.49	77.51	79.98
Lucania	30.70	35.80	42.27	52.51	59.39	69.69	72.98	75.67	78.25	80.00
Calabria	30.70	35.80	44.10	56.85	64.03	70.78	73.22	75.34	77.34	80.00
Sicily	35.50	36.40	39.51	56.84	63.73	70.31	71.78	74.41	76.66	79.28
Sardinia	31.60	37.60	43.45	56.68	65.75	71.58	72.82	75.30	77.28	79.77
South and islands	*31.90*	*36.10*	*40.90*	*56.30*	*63.56*	*69.82*	*71.90*	*74.15*	*76.77*	*79.40*
Center-North	*33.83*	*41.61*	*46.24*	*59.79*	*66.66*	*70.20*	*72.13*	*73.99*	*77.03*	*79.99*
Italy	33.10	39.30	44.13	58.09	65.51	70.06	72.05	74.04	76.94	79.80
					Index of regional inequality					
Simple	0.0721	0.0808	0.0799	0.0404	0.0320	0.0148	0.0135	0.0123	0.0089	0.0081
Normal	0.2947	0.2220	0.1844	0.0709	0.0518	0.0230	0.0206	0.0185	0.0131	0.0117
Improved	0.3199	0.2591	0.2247	0.1109	0.0975	0.0500	0.0491	0.0488	0.0420	0.0500

Sources and notes: See the text. Estimates are at the borders of the time and based on current population.

First, it is worth noticing the national rise in life expectancy throughout the period, from Unification, when it was less than 34 years average, to our days: by 2001, life expectancy has reached 80 years

[1] Prados, "Improving."

average, which makes of Italy a top-ranker in world comparisons; by this regard, this is no doubt a successful story. Looking at regions, ranks are not as one would expect. Although the Center-North is well ahead and the backward South is behind, in fact, within the former the north-eastern and central regions appear to be the most advanced, not the north-western ones which instead – historically and still at the present – are the richest ones in terms of Gdp: indeed, they lost their lead just when the industrial triangle (Piedmont-Liguria-Lombardy) was taking shape, around the end of the nineteenth century. This evidence supports the view that, at the early stages, industrialization was not so beneficial to the standard of living; it may also indicate that north-eastern and central regions were characterized by lower household income inequality, which involved higher longevity for the poor, as confirmed by data on birth mortality throughout the twentieth century.[1]

As a whole, at the second half of the nineteenth century the South ranked below the rest of the country, and its status did not improve substantially in the liberal age (here too, at 1911 the best positioned regions were the most agricultural ones: Abruzzi, Calabria, Sardinia, Lucania). Yet in the course of the twentieth century the North-South divide was completely bridged, so much so as to be overturned during the 1970s: by this regard, longevity is at odds with per capita Gdp, where as mentioned divergence grew in the first half of the century. In other words, in terms of life expectancy the South undertook modernization – and it was impressive indeed – as well as convergence throughout most of the century following Unification. It was in the last two decades (1981-2001) that the *Mezzogiorno* fell back relatively to the rest of the country, now similarly to what happened in per capita Gdp.

The indices of regional inequality add something more. To begin with, it should be noted that, if we did not consider the minimum threshold, the first decades after Unification would appear to be a period of divergence, as from the 'simple' measure; conversely, in these years the 'normal' and the 'improved' indices are very similar, in both their trends and values. As expected, however, in the second half of the twentieth century, when absolute differentials become modest, the improved measure seems to perform better in order to highlight differences. According to the improved index, convergence came to a halt in the 1980s,[2] and by 2001 regional dispersion had returned to the 1961 level. It goes without saying that, as long as the three indices testify of sigma convergence (a decrease in dispersion), they also implicitly indicate the presence of beta convergence (the most backward regions grow faster), which is its pre-condition.[3]

What determined the impressive convergence in life expectancy, which moreover took place for the most part (1891–1951) at times of Gdp divergence? Our answer is State intervention, which impacted also on the absolute (regional and national) figures. In this field, the starting-point was the 1888 law no. 5849, which created the national health service and harmonized and unified the codes of the pre-Unification states: the Mezzogiorno benefited by the new rues relatively more than the rest of the country, since the health code of the former southern Kingdom was the most backward.[4] The 1888 law introduced the obligatory vaccination against smallpox, which paved the way to the disease complete eradication in the course of the twentieth century. Admittedly, compulsory vaccination proved to be more difficult to implement in the South,[5] and some Southern regions (Sicilia, Puglia, Campania, Calabria, Basilicata) would have remained the most affected by the disease well ahead into the 1920s.[6] In the end, however, compulsory smallpox vaccination reached everyone in the country, by 1977 being declared as no longer necessary. This is indeed an exemplary case of passive modernization: progress came from outside (from the national State, in turn from Napoleonic France), backward South was less prone to accept it, but finally it did and thus converged towards the rest of country (since in all the regions deaths by smallpox equalled to zero).

[1] Felice, "I divari regionali in Italia," p. 378.
[2] Over the long run, we should regard the decrease between 1981 and 1991 as an increase, since by 1981 the South was more advanced.
[3] Not viceversa.
[4] Vicarelli, *Alle radici*.
[5] For Naples, see Tucci, "Il vaiolo," p. 425.
[6] Mortara, *La salute pubblica*.

Smallpox was not a unique case. The 1900 law no. 505 made possible the (almost) free delivery of quinine and thus reduced everywhere the malaria death toll,[1] which was higher in the *Mezzogiorno*, as well as in Latium and Tuscany;[2] to a minor degree also drainage works, extended to the *Mezzogiorno* in the liberal age, contributed to this result, although these would have been more efficacious if followed by a land reform which could replace extensive with intensive cultivation, as some meridionalists stigmatized.[3] At the same time, the construction of hygienic infrastructures from the second half of the nineteenth century, *in primis* aqueducts and sewerages, reduced deaths by typhus and cholera, particularly in small towns; cities in the South – Naples, Bari, Palermo, Catania – followed with more reluctance,[4] but in the end (i.e.: in the course of the twentieth century) here too typhus and cholera were practically eradicated[5].

Health policies had positive consequences on life expectancy whenever they could. Yet some death causes are overwhelmingly determined by exogenous factors – industrialization, urbanization, alimentation, or living conditions – public intervention can do very few against which: causes such as tumours, cardiovascular diseases, maybe even suicides, as well as, in the nineteenth century and still in the first half of the twentieth century, pellagra and wasting disease. In these cases, however, southern regions scored lower values than the rest of the country,[6] probably due to environmental and socio-economic conditions. On the other hand, economic 'resources' (and demographic transition) tend to have an heavier impact on birth mortality, which not by chance remained higher in the South throughout the twentieth century, and indeed it even increased relatively to the rest of the country:[7] here passive modernization was more difficult to implement, without an improvement in local economic and social conditions; i.e., birth mortality convergence could not be achieved, in the presence of economic divergence. Nowadays, Italy's main causes of death are tumours and cardiovascular diseases, which result higher in the northern and central regions; the South's lower rank is due to higher birth mortality.

4. Education

Concerning education, in order to illustrate the inequality pattern over the long run we make use of two indicators: from 1871 to 1951 literacy, the share of literate people out of population aged 6 years or more;[8] from 1951 onwards, per capita years of schooling.[9] The share of literate people is of paramount importance in pre-industrial societies, or whenever illiteracy is high: it is widely recognized as a pre-requisite to the start of modern growth and some authors have even proposed a

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[1] Corti, "Malaria."
[2] Berlinguer, Conti, and Smargiasse, "L'intervento sanitario."
[3] E.g. Fortunato, *Il Mezzogiorno*. Land reform came only in the 1950s.
[4] Forti Messina, "L'Italia dell'Ottocento."
[5] The few and sporadic cases still recorded in our days have no impact on aggregate per capita life expectancy.
[6] Felice, *Divari regionali*, p. 109.
[7] Ibid., p. 115.
[8] From Zamagni, "Istruzione;" Ministero di agricoltura, industria e commercio, *Annuario 1892*; Istat, *Annuario 1939*, and *Annuario 1953*; see also Felice, *Divari regionali*, p. 147, and Vasta, "Capitale umano," pp. 1052–3.
[9] In 1950 official sources began to report, for each region, the numbers of five different 'literate' groups: holders of university degree (U), of tertiary school diploma (T), of secondary school certificate (S), of primary school certificate (P), and literates without certificate (L). Istat, *Censimento . . . 1951*, *Censimento . . . 1961*, *Censimento . . . 1971*, *Censimento . . . 1981*, *Censimento . . . 1991*, and *14° Censimento*.
In order to estimate per capita years of schooling, we employed the formula:

$$\frac{18*NU + 13*NT + 8*NS + 5*NP + 2*NL}{Pop}$$

where *N* is the number of people belonging to each group, and *Pop* is current population aged 6 years or more; i.e., we simply assign 18, 13, 8, 5 and 2 years of schooling to each group respectively. 'Real' average years of schooling are surely higher, since this procedure does not consider those who did not complete a school order and thus did not get a diploma: being impossible to quantify, they have been treated as equally distributed across regions. However, school abandonment was probably higher in the *Mezzogiorno*, which means that 'real' convergence in per capita years of schooling may have been a bit faster. On the other hand, qualitative standards were not equal across regions, as PISA data suggest, thus all considered southern regions were probably worse off than what per capita years of schooling may indicate.

minimum literacy rate (40%) as the threshold beyond which the industrial revolution can occur.[1] Once mass elementary education has firmly established, literacy is no longer so important, and what should be measured is rather the educational level of an overwhelmingly literate population. Although imperfect for the reasons we are going to discuss, in theory per capita years of schooling can serve this scope: at the regional level they are available only from 1951, but it is in indeed from then on that are more useful.

Both literacy and per capita years of schooling are ‘stock’ measures, thus better suited to express changes in benchmark years than ‘flow’ measures such as the enrolment ratio, which is drawn from the number of students enrolled in a year *t* (and usually expressed as a percentage of the population included in the age bracket relative to the levels of primary, secondary, tertiary school, and university attendance). The enrolment ratio is a widespread proxy of education nonetheless, also as a component of the human development index, but for Italy’s regions its possible use would involve two critical problems: 1) in the elementary and secondary school orders (the compulsory ones), it would not consider school dispersion, hard to quantify indeed, especially in and for the past, but probably much higher in the Mezzogiorno; 2) with regard to university attendance it would not account for interregional mobility, which was on the rise during the last decades, usually from the South to the North, yet also from the smallest regions to the most populated ones. Per capita years of schooling may enable us to overcome both these shortcomings.

Table 2 reports the resulting figures, as well as the ‘normal’ and ‘improved’ measures of regional inequality. As for life expectancy, the Hdi and IHdi education component is used in place of y in Williamson (1) equation. For literacy (Lit), the ‘normal’ index draws on the figures of the table, the ‘improved’ one employs those from the formula:

$$\frac{\text{Log } 100 - \text{Log } (100 - \text{Lit})}{\text{Log } 100} \qquad (4)$$

For per capita years of schooling (Year School), which in order to be included in the Hdi have been normalized on a 0-12 scale, again in the first case table figures are used, in the second one those from the formula:

$$\frac{\text{Log } 12 - \text{Log } (12 - \text{Year School})}{\text{Log } 12} \qquad (5)$$

The improved formula is of course and again preferable, since it highlights differences: we are dealing with percentages (or with data treated as percentages), which *naturaliter* tend to converge as they increase.

Table 2. Literacy and per capita years of schooling: regional estimates

	Literate people (%)					Per capita years of schooling					
	1871	1891	1911	1938	1951	1951	1961	1971	1981	1991	2001
Piedmont					97.50	5.08	5.48	5.49	6.49	7.57	8.62
Aosta Valley	57.70	76.11	88.98	96.50	97.48	4.74	5.32	5.31	6.44	7.63	8.64
Liguria	43.70	65.64	82.99	94.12	95.86	5.12	5.71	5.86	6.86	7.99	9.02
Lombardy	54.80	71.74	86.57	96.10	97.36	5.17	5.55	5.62	6.73	7.86	8.90
North-West	*54.70*	*72.72*	*87.00*	*95.96*	*97.20*	*5.13*	*5.55*	*5.61*	*6.67*	*7.79*	*8.83*
Trentino-Alto A.	-	-	-	98.61	99.13	5.08	5.45	5.73	6.66	7.79	8.79
Veneto	35.30	56.25	74.84	90.83	93.61	4.60	4.98	5.28	6.32	7.49	8.58
Friuli	-	-	-	91.57	95.87	5.22	5.51	5.72	6.67	7.83	8.96
Emilia	28.10	45.77	67.27	87.75	91.94	4.62	5.10	5.23	6.39	7.60	8.72
Tuscany	31.90	45.36	62.59	84.85	89.21	4.38	4.94	5.16	6.29	7.44	8.57

[1] Bowman and Anderson, “The Role of Education;” Sandberg, “Ignorance;” Nuñez, “Alfabetización.”

The Marches	21.00	31.96	49.25	79.14	86.18	4.24	4.73	4.82	6.12	7.31	8.52
Umbria	19.90	33.35	51.39	79.07	86.05	4.13	4.73	4.91	6.25	7.43	8.70
Latium	32.30	49.51	66.79	84.68	90.11	4.77	5.55	5.85	7.03	8.19	9.40
North-East, Center	*30.20*	*46.99*	*65.73*	*87.19*	*91.33*	*4.61*	*5.14*	*5.38*	*6.51*	*7.69*	*8.83*
Abruzzi	15.20	25.01	42.41	71.94	80.20	3.81	4.36	4.64	5.90	7.11	8.46
Campania	20.00	30.02	46.34	70.01	77.44	3.62	4.34	4.69	5.95	7.05	8.25
Apulia	15.50	25.38	40.61	67.22	76.39	3.44	4.17	4.49	5.68	6.81	8.00
Lucania	12.00	19.86	34.74	60.77	70.92	3.12	3.75	4.13	5.46	6.60	8.09
Calabria	13.00	18.23	30.38	58.24	67.90	2.97	3.69	4.23	5.59	6.69	8.14
Sicily	14.70	24.14	42.00	66.54	75.71	3.51	4.21	4.50	5.71	6.79	8.05
Sardinia	13.90	26.15	42.04	69.93	78.41	3.37	4.17	4.61	5.83	6.97	8.19
South and islands	*15.90*	*25.21*	*41.44*	*67.15*	*75.84*	*3.47*	*4.17*	*4.53*	*5.77*	*6.89*	*8.15*
Center-North	*40.97*	*58.34*	*75.14*	*90.61*	*93.65*	*4.82*	*5.31*	*5.48*	*6.58*	*7.73*	*8.83*
Italy	31.20	45.20	62.38	82.42	87.26	4.33	4.90	5.15	6.30	7.43	8.59
	Indices of regional inequality										
Normal	0.5118	0.4364	0.3074	0.1492	0.1069	0.1651	0.1240	0.0995	0.0708	0.0620	0.0466
Improved	0.6936	0.7109	0.6599	0.5385	0.4744	0.2062	0.1618	0.1329	0.1055	0.1048	0.0965

Sources and notes: See the text. Estimates are at the borders of the time and based on current population.

At the time of Unification, Italy's regional disparities were remarkable high in literacy, much more than in life expectancy and (probably) in Gdp. The map of regional inequality was different too. If the South was again the most backward area, here the North-West was firmly the most advanced one: by 1871, the north-western regions – all of them – were the only ones which had already overcome the minimum 40% threshold supposedly required to start modern growth. Throughout the century following Unification, by this regard modernization was impressive, yet slower in the first decades. The South's catching-up, from a very low rank, began only in the twentieth century: although there was growth of the southern regions already in the 1871-1911 years, and it was probably unprecedented, this was not enough when compared to the rest of the country (in the 1891-1911 years, the decrease in the improved index was due to the convergence of the north-eastern and central regions). A brief survey of the reasons which can explain this partly disappointing performance is going to highlight another case of passive modernization.

The first law on compulsory education was issued already in 1859 (*Legge Casati*): it prescribed two years of free and compulsory elementary school, but left the burden of financing to municipalities. The poorest ones, especially in the most backward regions, could not carry it. The next law, issued in 1877 (*Legge Coppino*), added two more years of compulsory education; it also provided some financial aid to the most needy towns, but its amount was inadequate. The third law, issued in 1904 (*Legge Orlando*), extended to 6 years compulsory education, but did not change financing in a significant way. No wonder, from 1871 to 1911 the regions which improved less were Lucania and Calabria, although they were also the most illiterate ones and therefore those with more 'potential' for catching-up. The turning point came only with the forth law, issued in 1911 (*Legge Daneo-Credaro*), which increased funds and moreover prescribed the gradual transfer of costs and duties from municipalities to the State.[1] It is only from this year on that the South's convergence is undisputed: not because local administrations had become aware and capable of performing their duties, rather because these very duties were levied out from them.

[1] Scholars agree: Luzzati, "Introduzione;" Vigo, "Il contributo;" Checchi, "L'efficacia." For an outline of the history of the Italian education system over the long run, see also De Fort, *Scuola e analfabetismo*; Santamaita, *Storia della scuola*.

Southern Italy continued to converge in the second half of the twentieth century, in terms of per capita years of schooling. According to the improved index, however, convergence remarkably slowed down in the last two decades, as for life expectancy: it was when higher education became more important – both for economic growth and for what regards its relative weight on the school indicator – and it is here that the southern regions fell back in the very last decades.[1] Yet reasons are even more profound. School abandonment, also at the compulsory level, had always remained higher in the South than in the Center-North, with a possible resurgence in the last decades characterized by economic falling back and by rising illegal activities: in times of national hardships, the stimulus by external modernization tends to get weaker at the regional level, or – but the result is the same – 'resistance' to (passive) modernization may come up again or become stronger, while active modernization remains out of reach.

Moreover, it must be pointed out that 'real' differences in education are probably worse than what years of schooling may report. PISA (Programme for International Student Assessment) data, which measure the knowledge and skills of 15-years-old students around the world, indicate that in terms of learning southern students are still below the national average in all the main fields: on the whole around ten percentage points, a disparity greater than the one in per capita years of schooling.[2] Unfortunately, PISA data are available only from 2000, but for our sake they (as well as the evidence on school abandonment) confirm passive modernization in the South: major reluctance by the local communities to accept modernization from outside, which thus results slower.

For what regards university attendance, it may be added that still in 2007 the student-professor ratio was 1.4 times higher in the South than in the Centre-North. At the same time, graduates in scientific disciplines (as a percentage of population) were in the South barely 51.3% of the Centre-North.[3] Thus the South's backwardness in technical education is still impressive. It dates back to the nineteenth century, so much so that it has been called into question to explain the economic falling back of the liberal age.[4] Yet to our view at that time technical education was not decisive, the South's main problem being the lowest share of literate people. It got instead paramount importance in the second half of the twentieth century, when the failure of the Italian State to promote higher technical education is undisputable; all the more, because at that time massive regional policies were set up, but these did not care for education (see the next paragraph).

5. Value Added and Human Development

It is now time to turn to Gdp and human development. Table 3 shows Italy's regional inequality in per capita Gdp, in benchmark years from 1891 to 2001.[5] Regional inequality in human development is reported in tables 4 (Hdi) and 5 (IHdi), in the same benchmark years: for 1891 and 1911, both Hdi and IHdi estimates are new, since they make use of the available new estimates of regional Gdp.[6] Unlike with life expectancy and education, for the years prior to 1891 there are no regional Gdp estimates;[7] 1961 figures have been skipped over, because for this period the reliability of Gdp estimates is still under question.

[1] Felice, *Divari regionali*, p. 147.
[2] Nardi, "Il progetto nazionale."
[3] Novacco, *Per il Mezzogiorno*, p. 252.
[4] Fenoaltea, "The Economic History."
[5] From Felice, "Regional Development." 1991 figures are from Felice, *Divari regionali*, p. 125.
[6] Ibid. From 1938 to 2001, Hdi estimates are from Felice, *Divari regionali*, p. 152, IHdi ones from id., "I divari regionali in Italia," p. 394. It is worth adding that here the education component was estimated in a different way from the conventional one: the share of literacy decreases through time, to account for its supposed shrinking role, and from 1951 onwards (when they become available) per capita years of schooling are computed in place of the enrolment ratio. We accept this procedure, for the reasons exposed in the paragraph about education, when discussing the role of literacy and comparing the enrolment ratio with the years of schooling.
[7] The recent estimate by Vittorio Daniele and Paolo Malanima is limited to the South and the Centre-North, and still very preliminary. Daniele and Malanima, "Il prodotto delle regioni."

For human development, it is worth stressing that the improved indicator is better suited not only to highlight regional differentials in each social indicators, but also to restrict substitutability among the three components, by way of employing a geometric (rather then arithmetic) average to combine its dimensions. As a consequence, in fact, it performs better when all the three dimensions perform better, thus yielding a possible more faithful representation of the theoretical human development assumptions.[1]

Figures indicate that convergence took place also in human development, from Unification until the 1970s. Of course, Hdi and IHdi are affected not only by life expectancy and education, but also by Gdp, to which we now refer in some more detail. Around 1891, regional differences in per capita Gdp were not impressive indeed, the *Mezzogiorno* hovering short below 90% of the Italian average. Moreover, differences were high within southern Italy and even more within the North-East and Center: as a whole, this last was in the middle rank between the North-West and the South, and around the national average. In other words, ranks in per capita Gdp were partially different from those in social indicators, somehow in between life expectancy and education. Over the following decades, the inequality pattern would have diverged much more.

Between 1891 and 1911, the South fell back comparatively to the rest of the country, although at a relatively slow rate: some southern regions (the poorest ones) even improved. According to the available estimates, most of the North-South differential arose in the interwar period, that is when passive modernization in both education and life expectancy was more impressive. By 1951, per capita Gdp in the South had dropped to a mere 60% of the Italian average; meantime, differences had decreased across southern regions, as well as across the northeastern and central ones; as a whole, these last were still around the Italian average, whereas the North-West was at its peak. In view of this, we can conclude that, in terms of Gdp, the now common classification of Italy's regions into three macro-areas had truly formed only by the mid-twentieth century; as we have seen, in education it was already present at the time of Unification. As a consequence of enlarging differentials in Gdp, from 1891 to 1951 the South's convergence was less impressive in human development, than it was in longevity and education. But it was present nonetheless, as reported even by the IHdi, which by construction downsizes the rate of convergence in social indicators and is negatively affected by the fact that these follow a different path from Gdp; convergence took place, Gdp divergence notwithstanding.

From Unification until the end of the Second World War, the evidence that in terms of Gdp the South did not converge should not come as a surprise, given that in this period the national State was not engaged in promoting industrialization and economic change in the *Mezzogiorno*, with a partial exception for the Giolitti's years;[2] if ever, it favoured northern industries, especially (but not only) between the First World War and the Second one.[3] Things changed with the economic miracle, when the newborn Republic engaged into a massive regional policy in favour of the South, through the State agency called 'Cassa per il Mezzogiorno': for what regards both the amount of funds as a share of national Gdp, and the range of programs and works carried out, this 'extraordinary intervention' was probably without parallels in western Europe.[4] Scholars regard positively the infrastructural works of the first two decades,[5] and recent analyses from quantitative prospects suggest that the top-down industrial schemes carried out by the Cassa were of paramount importance in promoting the South's economic convergence in the 1950s and 1960s.[6] However, in most of the cases subsidized industrial plants remained extraneous to the South's society and economy, with very little spin off, so much so that the press labelled them 'cathedrals in the wilderness', *cattedrali nel deserto*. This evidence supports a strong argument in favour of passive modernization in order to explain convergence in per

[1] E.g. Prados, "Improving," pp. 3–4. Or at least, a partial different one.
[2] Barone, *Mezzogiorno e modernizzazione*, pp. 16–17; Galasso, *Il Mezzogiorno*, p. 64; Felice, *Divari regionali*, pp. 65–72.
[3] Zamagni, "La grande guerra."
[4] Felice, "Le politiche regionali."
[5] Barone, "Stato e Mezzogiorno;" D'Antone, "Straordinarietà." Concerning the mot successful case, Abruzzi and Molise, see Felice, "Cassa per il Mezzogiorno."
[6] Daniele and Malanima, "Il prodotto delle regioni." Felice, "Regional value added."

capita Gdp between 1951 and 1971.[1] As a consequence, the impressive convergence in human development must be entirely ascribed to passive modernization: in all the three dimensions (resources, longevity, education) reviewed in this article.

In the long run the 'Cassa', as well as the new agency ('Agensud') which followed it from 1984 to 1992, did not change the South society and indeed, more and more clearly from the 1970s onwards, even favoured a sort of 'vicious circle', which went from unproductive expenditure to market failure.[2] Southern Italy began to (slightly) fall back again in terms of Gdp since the 1970s, although it continued to receive massive State subsidies.[3] Passive modernization can explain as well the end of convergence: after the top-down industrialization subsidized by the State had collapsed, following the oil crisis in the mid 1970s, the *Mezzogiorno* was unable to progress on its own. The South's society and political actors, since were not actively engaged in modernization, showed a tendency to redirect State subsidies towards unproductive uses and even illegal activities, more 'efficaciously' once public intervention had no longer a modernizing strategy.

Although passive modernization had come to a halt in Gdp, during the 1970s it was still going on in education and life expectancy (and thus in human development as a whole). But in the last two decades, here too and as a consequence in human development, convergence considerably slowed down. As mentioned, in this period political power was partly and gradually transferred to regions and municipalities, which were entitled with new competencies and duties in education and (more) in health, as well as in the economic sphere.[4] It is worth adding that the determinants of longevity had changed, as to make more difficult passive modernization, whereas in education it was now all the country that probably fell back at the international level.[5] For all of these reasons, passive modernization in social indicators had become much more difficult. By 2001, differentials in human development across Italy's regions were still high, when compared to those across the most advanced countries;[6] of course, even higher according to the improved indicator.[7]

Table 3. Per capita GDP: REGIONAL ESTIMATES (2001 euros)

	1891	1911	1938	1951	1971	1981	1991	2001
Piedmont				4,322	12,133	15,047	18,941	22,917
Aosta Valley	1,418	2,374	3,608	4,645	13,536	17,159	19,435	24,711
Liguria	1,891	3,179	4,361	4,763	11,631	14,651	18,941	21,722
Lombardy	1,510	2,456	3,608	4,498	13,436	16,895	21,411	25,906
North-West	*1,523*	*2,518*	*3,712*	*4,469*	*12,835*	*16,103*	*20,423*	*24,711*
Trentino-Alto A.	-	-	2,466	3,116	10,127	14,783	18,117	25,707
Veneto	1,050	1,775	2,181	2,881	9,927	14,255	18,446	22,519
Friuli	-	-	3,089	3,263	10,027	14,387	18,776	22,319
Emilia	1,392	2,229	2,700	3,293	11,431	17,027	19,929	24,511
Tuscany	1,352	2,002	2,622	3,087	10,528	14,651	17,294	21,722
The Marches	1,155	1,672	2,051	2,528	9,125	13,859	16,305	19,729
Umbria	1,339	1,899	2,492	2,646	9,325	12,935	15,976	19,131
Latium	2,061	3,075	3,089	3,175	10,729	13,859	18,611	22,519
North-East, Center	*1,326*	*2,064*	*2,570*	*3,058*	*10,428*	*14,651*	*18,282*	*22,519*
Abruzzi	0,867	1,404	1,506	1,705	8,022	11,087	14,658	16,740

[1] It lasted indeed until 1973, that is until the oil shock.
[2] Bevilacqua, *Breve storia*, pp. 126–32; Trigilia, *Sviluppo senza autonomia*.
[3] Total expenditures from the 'Cassa' and then from Agensud were on the rise until the mid 1980s, topping 0.9 per cent of Italy's Gdp. Cafiero and Marciani, "Quarant'anni," pp. 271–73.
[4] For the regions, see Putnam, Leonardi, and Nanetti, *La pianta e le radici*.
[5] See Tinagli, *Talento.* According to Marcello de Cecco, the gloomy fate of Italy's economy may resemble that of Pinocchio, the wooden puppet who became a donkey after abandoning school and following Lucignolo to the Land of Play: de Cecco, *L'economia di Lucignolo*.
[6] Felice, *Divari regionali*, p. 154.
[7] For comparisons, see Prados, "Improving."

Campania	1,274	1,940	2,129	2,029	7,119	8,843	11,200	12,953
Apulia	1,339	1,754	1,869	1,911	7,520	9,503	12,023	13,352
Lucania	0,972	1,507	1,480	1,382	7,520	8,975	10,870	14,547
Calabria	0,880	1,445	1,272	1,382	6,718	8,579	9,717	12,754
Sicily	1,221	1,754	1,869	1,705	7,019	9,371	11,200	13,152
Sardinia	1,234	1,899	2,155	1,852	8,523	9,503	12,188	15,145
South and islands	*1,155*	*1,734*	*1,817*	*1,793*	*7,320*	*9,239*	*11,529*	*13,551*
Center-North	*1,405*	*2,270*	*3,011*	*3,616*	*11,431*	*15,311*	*19,105*	*23,316*
Italy	1,313	2,064	2,596	2,940	10,027	13,199	16,470	19,928
	Indices of regional inequality							
Simple	0.1936	0.2080	0.3018	0.3615	0.2258	0.2314	0.2377	0.2498
Improved	0.0772	0.0682	0.0984	0.1171	0.0518	0.0520	0.0514	0.0526

Notes: Estimates are at the borders of the time and based on current population. 2001 constant prices are obtained via deflating benchmark current prices by the official (Istat) index of consumer prices. The improved inequality index has been estimated from the same data used for Hdi and IHdi, i.e. after transforming per capita Gdp according to the formula:

$$\frac{\text{Log (per capita Gdp)} - \text{Log (100)}}{\text{Log (40,000)} - \text{Log (100)}}$$

Where per capita Gdp is expressed in 1990 international dollars.

Sources: See the text.

Table 4. Regional inequality in Hdi, 1891-2001 (Italy=1)

	1891	1911	1938	1951	1971	1981	1991	2001
Piedmont				1.10	1.03	1.02	1.02	1.01
Aosta Valley	1.32	1.21	1.09	1.05	1.02	1.02	1.01	1.01
Liguria	1.25	1.21	1.15	1.12	1.05	1.03	1.03	1.02
Lombardy	1.25	1.13	1.07	1.09	1.04	1.03	1.03	1.03
North-West	*1.27*	*1.17*	*1.09*	*1.10*	*1.04*	*1.03*	*1.03*	*1.02*
Trentino-Alto A.	-	-	1.12	1.05	1.02	1.02	1.02	1.03
Veneto	1.13	1.10	1.04	1.04	1.01	1.01	1.02	1.02
Friuli	-	-	1.12	1.11	1.02	1.02	1.02	1.02
Emilia	1.03	1.09	1.05	1.06	1.02	1.03	1.02	1.02
Tuscany	1.04	1.05	1.06	1.04	1.02	1.02	1.01	1.01
The Marches	0.91	0.97	1.00	1.00	1.00	1.01	1.01	1.01
Umbria	0.94	0.99	1.02	1.01	1.00	1.01	1.01	1.01
Latium	1.11	1.09	1.05	1.04	1.04	1.03	1.03	1.03
North-East, Center	*1.05*	*1.07*	*1.05*	*1.05*	*1.02*	*1.02*	*1.02*	*1.02*
Abruzzi	0.73	0.86	0.92	0.92	0.97	0.99	0.99	0.99
Campania	0.83	0.83	0.93	0.90	0.94	0.95	0.95	0.96
Apulia	0.80	0.81	0.86	0.89	0.95	0.96	0.97	0.96
Lucania	0.71	0.78	0.81	0.80	0.94	0.95	0.95	0.97
Calabria	0.68	0.77	0.82	0.83	0.93	0.95	0.94	0.96
Sicily	0.79	0.80	0.90	0.89	0.94	0.96	0.95	0.96
Sardinia	0.82	0.87	0.93	0.91	0.97	0.97	0.97	0.97
South and islands	*0.78*	*0.82*	*0.89*	*0.89*	*0.95*	*0.96*	*0.96*	*0.96*
Center-North	*1.15*	*1.11*	*1.07*	*1.07*	*1.03*	*1.02*	*1.02*	*1.02*
Italy (abso.)	0.3294	0.4208	0.5719	0.6228	0.7415	0.7879	0.8379	0.8895

	Index of regional inequality							
Normal	0.2081	0.1541	0.0891	0.0922	0.0401	0.0326	0.0324	0.0298

Sources and notes: See the text. Estimates are at the borders of the time and based on current population.

Table 5. Regional inequality in IHdi, 1891-2001 (Italy=1)

	1891	1911	1938	1951	1971	1981	1991	2001
Piedmont				1.23	1.09	1.06	1.04	1.03
Aosta Valley	1.49	1.42	1.21	1.14	1.08	1.06	1.04	1.01
Liguria	1.33	1.34	1.25	1.25	1.13	1.08	1.06	1.05
Lombardy	1.35	1.24	1.15	1.21	1.11	1.09	1.07	1.06
North-West	*1.41*	*1.32*	*1.18*	*1.22*	*1.11*	*1.08*	*1.06*	*1.05*
Trentino-Alto A.	-	-	1.29	1.22	1.15	1.10	1.09	1.09
Veneto	1.21	1.18	1.08	1.10	1.06	1.04	1.05	1.05
Friuli	-	-	1.20	1.26	1.09	1.06	1.07	1.07
Emilia	1.04	1.13	1.09	1.12	1.07	1.06	1.05	1.05
Tuscany	1.06	1.08	1.10	1.07	1.04	1.04	1.04	1.04
The Marches	0.89	0.96	1.01	1.01	1.01	1.03	1.04	1.05
Umbria	0.92	0.99	1.03	1.01	1.00	1.02	1.02	1.03
Latium	1.11	1.11	1.07	1.08	1.08	1.07	1.07	1.07
North-East, Center	*1.08*	*1.11*	*1.09*	*1.09*	*1.06*	*1.05*	*1.05*	*1.05*
Abruzzi	0.67	0.82	0.90	0.86	0.95	0.97	0.98	1.00
Campania	0.76	0.76	0.91	0.83	0.88	0.90	0.91	0.91
Apulia	0.71	0.73	0.81	0.80	0.90	0.92	0.94	0.93
Lucania	0.63	0.71	0.75	0.68	0.86	0.90	0.91	0.93
Calabria	0.60	0.70	0.77	0.70	0.86	0.90	0.89	0.92
Sicily	0.71	0.73	0.86	0.80	0.89	0.92	0.91	0.91
Sardinia	0.76	0.81	0.90	0.83	0.93	0.95	0.95	0.95
South and islands	*0.71*	*0.75*	*0.86*	*0.80*	*0.89*	*0.92*	*0.92*	*0.93*
Center-North	*1.22*	*1.20*	*1.12*	*1.14*	*1.08*	*1.06*	*1.06*	*1.05*
Italy (abso.)	0.1377	0.1905	0.3633	0.4070	0.5307	0.5963	0.6703	0.7608
	Index of regional inequality							
Improved	0.2937	0.2436	0.1464	0.1823	0.0959	0.0729	0.0683	0.0634

Sources and notes: See the text. Estimates are at the borders of the time and based on current population.

6. Synthesis

In the previous paragraphs we have discussed passive modernization in social and economic indicators, via showing (a variant of sigma) convergence of regional figures and then briefly reviewing the main historical determinants. The Italian ‘case’ can be summarized in the following table (6).

Table 6. Growth, State intervention and convergence in Italy’s regions

	1871-1891	1891-1911	1911-1938	1938-1951	1951-1961	1961-1971	1971-1981	1981-1991	1991-2001	*1871-2001**
				Life expectancy						
Growth rate (N)	**2.51**	1.27	**2.11**	**1.50**	0.93	0.24	0.24	0.44	0.42	*1.34*
Growth rate (I)	**3.20**	1.73	**2.76**	**2.64**	2.15	0.98	1.04	1.68	1.99	*2.20*

State Intervention	S/W	**S**	**S**	**S**	S/W	S/W	W	W	W	***S/W***
Converg. rate (N)	1.41	0.92	**3.48**	2.39	**7.80**	1.10	1.07	-3.39**	1.12	*2.45*
Converg. rate (I)	1.05	0.71	**2.58**	0.99	**6.46**	0.18	0.06	-1.49**	-1.76	*1.42*
					Education					
Growth rate (N)	0.32	**1.53**	**1.31**	0.14	0.44	0.09	**0.85**	**0.84**	**0.90**	0.74
Growth rate (I)	0.75	**2.34**	**4.32**	-0.20	1.23	0.32	**1.90**	1.41	1.47	1.71
State Intervention	W	S/W	**S**	**S**	S/W	S/W	W	W	W	***W/S***
Converg. rate (N)	0.79	1.74	**2.64**	**2.53**	**2.82**	**2.18**	**3.35**	1.32	**2.82**	*1.83*
Converg. rate (I)	-0.12	0.37	0.75	0.97	**2.40**	**1.95**	**2.28**	0.07	0.82	*1.51*
					Per capita Gdp					
Growth rate (N)	n.a.	2.29	0.85	0.96	**8.19**	**4.49**	**2.79**	2.24	1.92	*2.50**
Growth rate (I)	n.a.	**0.84**	0.22	0.25	**3.25**	0.12	0.59	0.45	0.37	*0.67**
State Intervention	W	W	W	W	**S**	**S**	**S**	**S**	W	*W/S*
Converg. rate (N)	n.a.	-0.36	-1.39	-1.40	**2.33**	**2.33**	-0.25	-0.27	-0.50	*-0.23*
Converg. rate (I)	n.a.	**0.62**	-1.37	-1.35	**4.00**	**4.00**	-0.04	0.12	-0.23	*0.35*
					Human development					
Growth rate (N)	n.a.	**1.23**	**1.14**	0.66	**1.54**	0.22	0.61	0.62	0.60	*0.91**
Growth rate (I)	n.a.	**1.63**	**2.42**	0.88	**2.21**	0.47	1.17	1.18	1.27	*1.57**
State Intervention	W	S/W	**S**	**S**	**S**	**S**	S/W	W	W	***S/W***
Converg. rate (N)	n.a.	1.49	**2.01**	-0.26	**4.08**	**4.08**	**2.05**	0.06	0.83	*1.75**
Converg. rate (I)	n.a.	0.93	**1.87**	-1.70	**3.16**	**3.16**	**2.70**	0.65	0.74	*1.38**

Legend: **S** = Strong, W = Weak (see previous paragraphs); growth rates in bold font are above the 1871-2001 average. *Notes*: Rates in percentages; * 1891-2001; ** Convergence of the central and northern regions.

Sources: Elaboration from tables 1-5.

State intervention in favour of regional modernization began at the end of the nineteenth century in life expectancy, just before the First World War efficaciously in education, only after the Second World War in a significant way in the economic dimension. Conversely (and very approximately indeed) it passed its climax first in life expectancy and education, lastly in Gdp. This sequence was at least in part due to the characteristics of each and every dimension: these made easier and less expensive, or more convenient by many standards, to intervene in life expectancy, by far more complicated and demanding to do it in Gdp; education was in a middle position, maybe closer to life expectancy, its second ranking being referable to the financial constraints of the post-Unification years. The taxonomy is respected in terms of results: over the long run, convergence was higher in the case of life expectancy, slower in education (we must consider that here the ‘real’ results are probably worse than what our data may reflect), indeed it did not occur at all in the case of Gdp. The correlation between national growth rates and regional convergence (table 7) supports the view that State intervention and thus passive modernization were more problematic to implement in the economic dimension. Concerning per capita Gdp, in fact, convergence took place in the years of most intense growth. This correlation is weaker although present in life expectancy, and indeed is reverted in the case of education: here convergence was more intense in the periods of slower national growth, a result partly referable to the delay in State intervention, after the stronger rise of the liberal age (1891-1911). However, in the case of social indicators convergence has a weak correlation with the growth rate of per capita Gdp: suggesting not only that here passive modernization may have been less expensive, but also that life expectancy and education were independent dimensions of modernization, obeying different rules.

Table 7. Correlation between growth rates and convergence rates, 1891-2001

	Life expectancy	Education	Per capita Gdp	Human development
	The growth rate of each dimension			
Normal				
Coeff.	0.344**	-0.262**	0.997**	0.256**
Sig (2-tailed)	0.000	0.006	0.000	0.007
Number obs.	110	110	110	110
Improved				
Coeff.	0.206*	-0.343**	0.989**	0.397**
Sig (2-tailed)	0.031	0.000	0.000	0.000
Number obs.	110	110	110	110
	The growth rate of per capita Gdp			
Normal				
Coeff.	0.238*	0.001	0.997**	0.758**
Sig (2-tailed)	0.012	0.988	0.000	0.000
Number obs.	110	110	110	110

Method: Pearson correlation.

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

In terms of regional rankings, table 8 indicates that over time life expectancy followed a separate path from the other indicators, and it confirms longevity as the most benefited dimension. Regional differences in life expectancy and education are somehow correlated in the first decades, yet by 1981 this correlation had reverted its sign; significantly, correlation seems to come up again in the very last years. On the other hand, life expectancy and Gdp rankings are practically uncorrelated. Conversely, correlation between education and value added increased through most of the period: incidentally, this result tells us that in education, although convergence occurred (the regions got closer), the rankings remained more or less the same, i.e. the most backward regions continued to lie behind the most advanced ones; so much so that we could search for a way to emphasize education differentials which would not result into convergence, as it is the case with per capita Gdp.[1] This is another good reason to suspect that passive modernization in education was not comparable to that in life expectancy, and less impressive than what may seem.

Table 8. Correlation of regional rankings

	1871	1891	1911	1938	1951	1971	1981	1991	2001
	Life expectancy *versus* Education								
Coeff.	0.467	0.827**	0.425	0.727**	0.546*	-0.355	-0.515*	-0.359	0.044
	Life expectancy *versus* Value added								
Coeff.	-	0.386	0.180	0.554*	0.361	-0.340	-0.389	-0.218	0.139
	Education *versus* Value added								
Coeff.	-	0.601*	0.747**	0.814**	0.891**	0.803**	0.821**	0.911**	0.806**
N	*16*	*16*	*16*	*18*	*19*	*19*	*19*	*19*	*19*

Method: Pearson correlation.

* Correlation is significant at the 0.05 level (2-tailed).

[1] To make profit of PISA data (or of some other measure of the skill and knowledge of educated people, not just of the number of years they spent at school) could be an efficacious way to emphasize these disparities, but unfortunately, as mentioned, these are available only for very recent years – and confirm higher education differentials.

** Correlation is significant at the 0.01 level (2-tailed).

In the first paragraph, we have argued that active modernization may have been possible also at the regional level, yet limitedly to the last decades of twentieth century: because regions had a growing power, and – more in general – because technology and institutions were evolving in such a way as to favour delocalization from the national State. As a consequence, from (approximately) the 1970s onwards the big issue in Italy's regional inequality is not only on whether (and how and when) passive modernization did take place, but also on whether some regions embarked upon active modernization. In other words: did southern regions modernize once they had the power to do it? From the above reconstruction our answer is not, in fact they fell back once passive modernization was over, or no longer effective; this failure was patent in life expectancy, but probably occurred also in education, as the limited evidence from PISA data (more dependent on local conditions than the average years of schooling) would suggest; and of course in per capita Gdp. But why did they fall back? This is the big question, maybe beyond the scope of this paper. However, we can partly reformulate it by asking: why did passive modernization not pave the way to active modernization?

A possible answer to this question is that in the South passive modernization was complete only in the case of life expectancy, where indeed by the 1970s the most backward regions had succeeded in reaching the most advanced ones. Out of the three dimensions we have considered, life expectancy seems to be the one more inclined to benefit from passive modernization, yet also, unfortunately, the one less correlated with the others: State intervention was more effective in a dimension which could hardly influence the other two, whereas on the other hand it could have been negatively affected by lower levels of education and per capita Gdp. In short, passive modernization did not lead to active modernization because the former was lacking.

A different answer would be that passive modernization is by itself unable to evolve into active modernization – an argument particularly appealing in the case of Gdp. We have not enough evidence to tell that this was the case, although the story of the 'extraordinary intervention' in the South seems to indicate that it could be: however, Gdp convergence came to a halt well before the North-South divide was bridged, thus, once again, it could simple have been insufficient.

From the Italian experience, we can sketch a draft scheme of passive modernization at the regional level (figure 1). State intervention would occur first in life expectancy, then in education, finally in value added, which all would impact on human development. These dimensions also have possible interconnections, weaker in the case of life expectancy, at least in terms of its contribution to the advancement of the other two (whereas it can strongly benefit from them). There are other ways through which State intervention may affect indirectly the main dimensions (think of the enforcement of the legal system, or more in general of social capital), but these and their possible ties have not been explored in this paper; they could be an efficacious policy instrument, although by assumption have only an indirect impact. Education is at the centre of the chart because it seems to be the most effective goal: compared with value added, in fact, this is a field where State intervention is relatively less expensive and holds a greater likelihood of success; compared with life expectancy, education may have a stronger impact on the other dimensions. Accordingly, the partial failure of passive modernization in southern Italy may be referable to the delay and faults of State intervention in this very field, both in the liberal age and in the second half of the twentieth century: but on this hypothesis more research is needed.

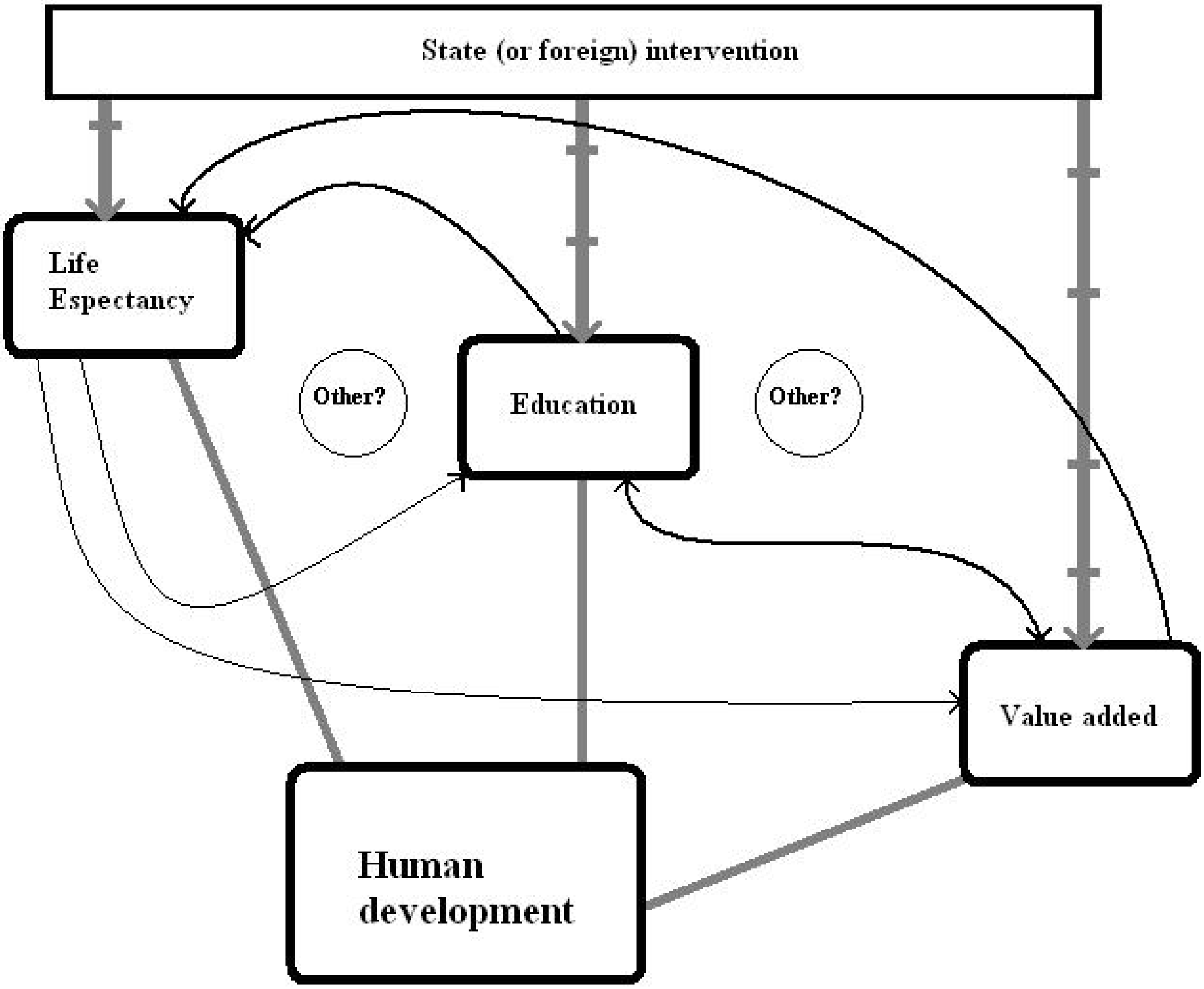

Figure 1. State intervention and modernization

7. Conclusion

This article presents regional estimates of social and economic indicators in Italy, in benchmark years from 1871 to 2001: regional figures and the inequality pattern are discussed with regard to life expectancy, education (literacy and years of schooling), per capita Gdp, and thus the normal and improved human development index. The article also advances an interpretative hypothesis to account for the different patterns and convergence rates, which is based on the distinction between passive and active modernization. At the regional level, passive modernization relies on State intervention, whereas active modernization involves the contribution of local institutions but is significant only from the 1970s onwards. Evidence from Italy's regions shows that passive modernization was implemented first in life expectancy (mostly during the liberal age), then in education (approximately during the interwar years), finally in Gdp (in the second half of the twentieth century). Results indicate high convergence in the case of life expectancy, middle one in education, yet divergence in value added (with convergence limited to the period of most intense national growth and intervention). Besides, in all these fields convergence came to a halt or was even reverted in the last decades, when for a number of reasons passive modernization was more difficult to implement. Accordingly, convergence in human development was significant until the 1970s, but later it slowed down: here the Italian North-South differential is still relatively high, especially if we consider the improved indicator.

Looking at the sequence and historical periods of State intervention, as well as at the changes in the correlation of regional rankings, it is argued that passive modernization was usually less expensive in education than in Gdp; at the same time, higher education was probably more helpful to the other dimensions, at least when compared to life expectancy. Thus State intervention had to be carefully calibrated on education, as it generally was not: we don't know if this fault may explain the unsatisfactory convergence of the whole period and in particular of the last decades, the hypothesis is worthy of more research. An attempt has been made at synthesizing the above evidence into a draft scheme of State intervention and modernization, in the hope that it may be useful for further comparisons and investigation.

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The Regulation Framework for the Banking Sector: The EMU, European Banks and Rating Agencies before and during the Recent Financial and Debt Crisis

Eleftherios Thalassinos[1]

Abstract: A regulation framework for the banking sector should be characterised by transparency, responsibility and performance in several important areas. These areas are the global and European framework for corporate financial reporting (CFR), risk management (RM), stockholder value creation (SVC), corporate governance (CG), corporate social responsibility (CSR) and sustainable development (SD). The regulation framework for the banking sector must also consider the fiscal and monetary environment in which a banking institution operates. The global rating system and the rating agencies will also have an important impact on any regulation framework for the banking sector. These two factors play a key role when a financial, credit or debt crisis occurs. In this article, a holistic regulation framework for the banking sector is presented. The article is based on European banks that are part of the European Monetary Union (EMU). Initially, it focuses on the timelines and review the integration of the European Monetary Union, relevant legislation and information on member countries' banking sectors. This information creates the framework for the proposed model. The article considers all of the above factors in creating a holistic regulation framework for the banking sector to present in the context of the recent financial, credit and debt crises that have taken place in the EMU.

Keywords: Banking; Regulations; Financial Crisis; Debt Crisis; EMU

JEL Classification: G01; G21; G28; G30; H12;

1. Introduction

This current crisis is not under control yet and it may lead to a new global monetary system. The new system must be independent from the rating agencies, the speculators, the CDSs, the country deficits and the exchange rate fluctuations. Maybe this is a unique opportunity to redesign the global monetary system with one reserve currency, with an extended cooperation among the hard currency areas and a very sensitive and effective regulatory framework.

Unfortunately euro-currency failed to convince the international markets in its role as a reserve currency. Actually euro failed to follow the description given to reserve currencies in 1960 by the Belgian-American Professor Robert Triffin stating that "a reserve-currency nation must run a current-account deficit to provide liquidity for the international monetary system". The reward of the nation for providing liquidity has been the modest returns of the seigniorage-equivalent to 2% of the amount that is lent for providing that liquidity to the monetary union. This is the Triffin Dilemma which nobody in the EU took it seriously.

The main aim of this paper is an attempt to examine and evaluate the role of the rating agencies before during and after the recent financial crisis. Which is the methodology used by the rating companies Moody's, S&P, FITCH and others, in evaluating a bank's financial health or a country's economic performance? A question that has been arisen and it is still open refers to the methodology used by

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these rating companies in their attempt to evaluate banks or nations, the regulatory framework and the evaluation method used.

There are also other questions open regarding the role of the rating companies in the last period especially for their high interest to make evaluation reports almost every two to three weeks for selected countries, among them Portugal, Ireland, Italy, Greece and Spain, the so called PIIGS in the Eurozone.

2. The Methodology

The methodology is to demonstrate a holistic framework for measuring a bank's financial health by classifying its main responsibilities between conformance and performance. This framework should be characterised by transparency, responsibility and performance in several important areas such as:

- Corporate financial reporting (CFR);
- Risk management (RM);
- Stockholder value creation (SVC);
- Corporate governance (CG);
- Corporate social responsibility (CSR);
- Sustainable development (SD).

The regulation framework for the banking sector must also consider the fiscal and monetary environment in which a banking institution operates, in addition to the Nationally Recognized Statistical Rating Organizations (NRSROs) which are the responsible bodies for the independent evaluation of all different kind of financial companies including state economies. Based on this framework, the research correlates all qualitative and quantitative components, with the banks' ratings taking into consideration the macroeconomic environment as well.

However it is interesting to see what and how the NRSROs perform their role in the world economy. Who is responsible for the licensing of these organizations? Who is responsible for controlling them? Who is responsible for the transparency in their reports? Actually no body was responsible until 2006.

Ten rating companies actually only three, all based in the USA, are responsible for all the reports made which are more than 2,8 million for the financial institutions and state economies with 2,2 million of them for government securities. The three organizations, S & P, Moody's and Fitch amount to 2,7 million of the total, more that 96,43% of the market.

The 2011 report of the Securities and Exchange Commission (SEC) in the USA has imposed several measures for the effective control of the NRSROs far after the current financial crisis. As it is stated in the document: "In 2006, Congress passed the Credit Rating Agency Reform Act (the "Rating Agency Reform Act") that provided the Commission with the authority to establish a registration and oversight program for credit rating agencies"

In 2007 the Commission adapted a measure for better control of the agencies and in July 2010 has imposed a law in order to evaluate the analysts and the methodology used.

3. The Rationale

In order to give a better understanding about the framework in the European banking industry it is necessary to mention all different developments starting from the period of the establishment of the first customs union in Europe in 1957 with the treaty of Rome until now. By going on through the years, we have seen a number of changes in the European Financial System, the Maastricht treaty in 1991, the establishment of the European Monetary Union with the common currency in circulation in 2002. Year after year Europe has been expanded with new members joining, Slovenia, Cyprus and Malta, Slovakia and Estonia.

At the same period a number of legislative changes have been taken place in Europe, first and second directive, Basel I establishes minimum capital adequacy requirements for banks (8% ratio), defines Tier 1 (equity) and Tier 2 (near-equity) capital and creates risk weightings based on credit risk for banks while Basel II creates a single EU banking license, introduces principles of home country control (home regulators had ultimate supervisory authority over foreign activity in their banks) and ensures mutual recognition. EU bank regulators recognise equivalent regulations. This Directive is passed in conjunction with the Own Funds and Solvency Directives, which incorporate capital adequacy requirements similar to those of Basel I into EU law. However both of them failed to protect the EU banking system during the recent crisis. Then the Financial Services Action Plan, the Directive on the Reorganization and Winding-Up of Credit Institutions, the White paper on Financial Services Policy, the Capital Requirements Directive updates Basel I and incorporates the measures suggest in the International Convergence of Capital Measurement and Capital Standards as it is stated in Basle II.

Improved consistency of international capital regulations, improved risk-sensitivity of regulatory capital, and promotion of improved risk-management practices among international banks etc., even though they have also failed in an unforeseen crisis. Probably no body in the European organizational or political bodies was in a position to predict such a crisis or to propose a defensive measure to protect the system.

The European banking industry has been expanded seriously during the period 1985-2008. Table 1 shows the Time Line of Main Figures for the Banking Industry for the first 15 EU countries for the period 1985 to 2008. Number of banks, total assets in billions of euros, number of branches and total number of employees are presented in the table. The percentage change in total assets, given in the middle of the table, has great interest especially for the case of Greece Ireland and Spain with a total change of 101%, 96% and 123% respectively. It seems that there was an extensive bank expansion in these countries during the period 1985 to 2008 while all over figures remained unchanged.

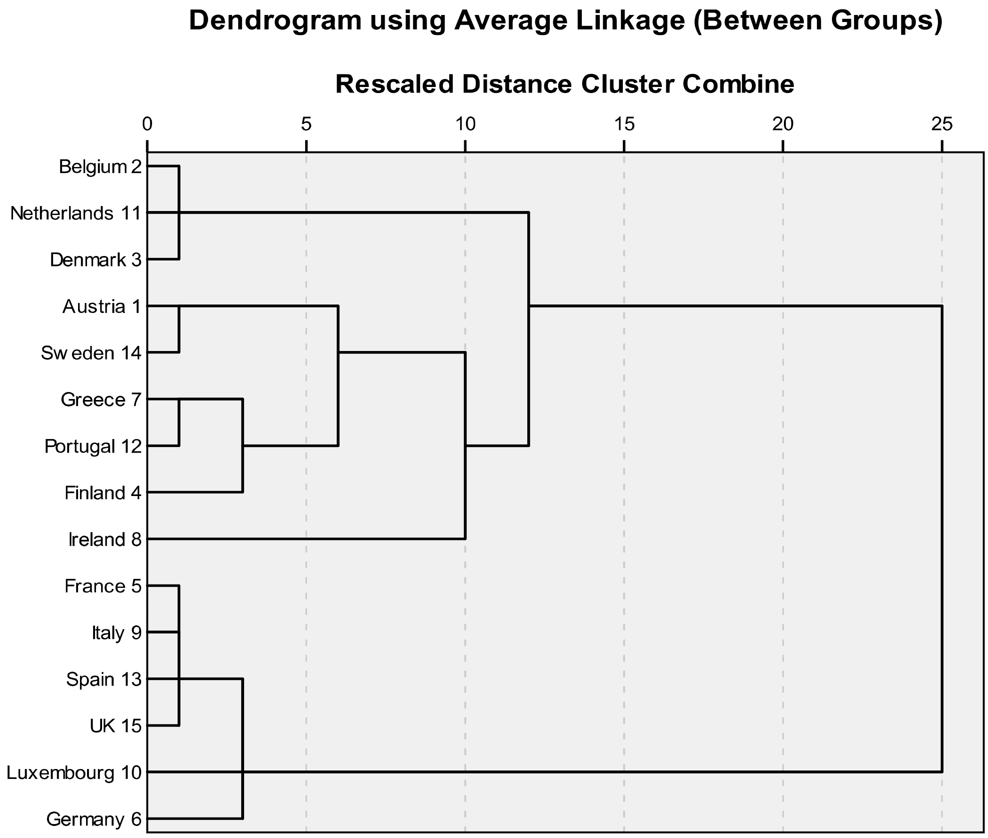
Table 1. Time line of Main figures for the Banking Industry per (first 15) EU country (1985-2008)

	Number of banks				Assets (billion euro)					Number of branches				Employees ('000s)			
Country	1985	1995	2004	2008	1985	1995	2004	2008	Δ%	1985	1995	2004	2008	1985	1995	2004	2008
EMU countries																	
Austria	1406	1041	796	803	–	–	635	1068	68%	–	–	4360	4243	–	–	73	79
Belgium	120	143	104	105	286	589	914	1272	39%	8207	7668	4837	4316	71	77	71	65
Denmark	259	202	202	171	96	126	607	1092	80%	3411	2215	2021	2192	52	47	44	53
Finland	498	381	364	357	–	–	212	384	81%	–	1612	1585	1672	–	31	25	26
France	1952	1469	897	728	1349	2514	4415	7225	64%	25,782	26,606	26,370	39,634	449	408	425	492
Germany	4739	3785	2148	1989	1495	3584	6584	7875	20%	39,925	44,012	45,505	39,531	591	724	712	686
Greece	41	53	62	66	69	94	230	462	101%	1815	2417	3403	4095	27	54	59	66
Ireland	42	56	80	501	21	46	722	1412	96%	–	808	909	895	–	–	36	41
Italy	1101	970	801	818	547	1070	2276	3628	59%	13,033	20,839	30,946	34,139	319	337	337	340
Luxembourg	177	220	169	152	170	445	695	932	34%	120	224	253	229	10	19	23	27
Netherlands	178	102	461	302	227	650	1678	2235	33%	6868	6729	3649	3421	92	111	115	116
Portugal	226	233	200	175	38	116	345	482	40%	1494	3401	5408	6391	59	60	53	62
Spain	364	506	346	362	311	696	1717	3831	123%	32,503	36,405	40,621	46,065	244	249	246	276
Other EU countries																	
Sweden	598	249	222	182	–	–	583	900	54%	–	–	2018	2025	–	–	39	50
UK	772	564	413	391	1294	2000	6970	8840	27%	2,224	17,522	13,386	12,514	350	383	511	496

Sources: Central Bank Reports (various), ECB Structural indicators for the EU banking sector January 2010, Authors' Calculations

The data indicate the similarities between the banking sectors of several European countries based on hierarchical cluster analysis using all available methods, including Pearson correlation and Euclidian distances. The main conclusions according to the resulting dendrogram (correlation method, between groups) are as shown in Table 2 below.

Table 2



There are two large groups, one comprised of large countries like France, Germany, the UK, Italy, and Spain plus Luxembourg and another group comprised of all other countries, including Austria, Belgium, Denmark, Finland, Greece, the Netherlands, Portugal and Sweden. Ireland remains in an uncertain position; based on the within-group analysis, it belongs to first group, but based on the between-groups analysis, it belongs to the second group. The subgroup within the first group includes France, the UK, Italy and Spain, whereas Luxembourg and Germany stand alone. There are three subgroups within the second group: the Netherlands, Belgium and Denmark; Austria and Sweden; and Greece and Portugal. Finland stands alone.

Table 1 show the Time Line of the Main Figures for the European Banking Industry and this is actually the first data set used for the empirical analysis below. The limitation of the proposed methodology is the fact that up to now the study has analyzed statistical data only from the Greek and the Spanish banking industries. In both cases the proposed model performs quite well.

The global rating system and the 3 main rating companies are presented in Table 3. All the 3 rating companies used an identical rating system with 21 different levels. The first 10 levels provide “Adequate credit quality” with positive investment grade, while the last 11 non investment grade. Levels below 10 represent junk situations or non – investment or speculative areas. On the other hand the credit ratings of Moody’s, Standard and Poor’s, and Fitch’s play a key role in pricing credit risk and on investment strategies.

Table 3. Rating Agencies – Rating Rank, Grade and Definitions

Index - score – Rank	Moody's	Long Term Ratings - definitions	S&P's - FITCH	Long Term Ratings - definitions	Grade
1	Aaa	Exceptional credit quality	AAA	Highest credit Quality	Investment Grade
2	Aa1	Excellent credit quality	AA+	High credit Quality. Very strong capacity to meet financial commitments	
3	Aa2		AA		
4	Aa3		AA-		
5	A1	Good credit quality	A+	Good credit Quality. Strong capacity to meet financial commitments	
6	A2		A		
7	A3		A-		
8	Baa1	Adequate credit quality	BBB+	Weakened capacity to meet financial commitments	
9	Baa2		BBB		
10	Baa3		BBB-		
11	Ba1	Questionable credit quality	BB+	Inadequate capacity to meet financial commitments	Non-Investment Grade or
12	Ba2		BB		Speculative Grade
13	Ba3		BB-		
14	B1	Generally poor credit quality	B+	Limited capacity to meet financial commitments	
15	B2		B		
16	B3		B-		
17	Caa1	Extremely poor credit quality	CCC+	Vulnerability to nonpayment	
18	Caa2		CCC-		
19	Caa3		CC	High vulnerability to nonpayment	
20	Ca	In Default	C	Bankruptcy or similar action	
21	C	In Default, low recovery value	SD/D	Debt in selective default/default	

The future role of these rating agencies seems to be further expanded with and after implementation of Basel II but nowadays there is, especially from the side of Europe, a critical position against these agencies for non transparency in methodologies that they use (nobody knows the rating method) and for not consistent rating which they give before and after a financial crisis.

4. The Empirical Evidence

This problematic situation was clear in the case of Greece and very recently in Portugal and Spain. Table 4 represents the timeline of rating levels for the four biggest Greek banks and for the Greek economy as a whole according to rating agencies before and after the financial and the government debt crisis. The correlation between the levels of Greek Bank's ratings and the country's rating is obvious. In a very short period of time the 4 biggest Greek banks went down more than 10 rating levels by the three rating companies almost simultaneously. By comparing the ratings, the level of devaluation, the period of the rating and other details it is clear that rating companies have a common strategy. To lead the international market against Greece, to make Greek financing very expensive, to increase deficits etc., in an attempt to patronage the economy. Interest rates spreads went up to the sky and the Greek economy started to shake.

Table 4. Bigest Greek banks' ratings

	Moody's		S&P's		FITCH
NBG		**NBG**	-	**NBG**	-
15 June '10	από Baa2 (On Review) / P-2 σε Ba1 (Stable) / NP	-	-	-	-
30 Apr. '10	Downgraded to Baa2(On review) from A3 (On review)	27 April '10	Downgraded by 3 notches from BBB+(Neg)/A-2 to BB+(Neg)/B	9 Apr. '10	Downgrade to BBB- (Rating Watch Negative) from BBB(Neg.)
23 Apr. '10:	Downgraded to A3 (On Review) from A2 (Neg)	16 Mar. '10	Removes Credit Watch Negative - Affirms Negative Outlook	23 Feb. '10	BBB (Neg)
31 Mar. '10:	Downgraded to A2 (Neg) from A1 (Neg)	Dec.'09	Credit Watch Negative	Dec '09	BBB+ (St.), following downgrade of Greek Sovereign Rating
3 Mar. ' 10	On Review for possible downgrade	May '09	BBB+ (Negative)	March '09	A- (Negative)
Dec. '09	A1 (Negative)	Dec.'08	BBB+ (Stable)		
Dec.'08	Aa3 (Negative)				
June '03	A2 (Stable)				
ALPHA	-	**ALPHA**	-	**ALPHA**	-
15 June '10	από Baa3 (On Review) / P-3 σε Ba1 (Stable) / NP	-	-	-	-
30 Apr. '10	Downgraded to Baa3(On review) from A3 (On review)	27 April '10	Downgraded by 3 notches from BBB(Neg)/A-2 to BB (Neg) /B	9 Apr. '10	Downgrade to BBB- (Rating Watch Negative) from BBB(Neg.)
23 Apr. '10:	On review for possible downgrade	16 Mar. '10	Removes Credit Watch Negative - Affirms Negative Outlook	23 Feb. '10	BBB (Neg)
31 Mar. '10	Downgraded to A3 (Neg) from A2 (Neg)	Dec.'09	Downgrade to BBB with Credit Watch Negative	Dec '09	BBB+ (Negative), following downgrade of Greek Sovereign Rating
3 Mar. ' 10	On Review for possible downgrade	May '09	BBB+ (Negative)	March '09	A- (Negative)
Febr.'09	A2 (Negative)	Dec.'08	BBB+ (Stable)		
Dec.'08	A1 (Negative)				
April '07	A1 (Stable)				
EFG EUROBANK		**EFG EUROBANK**		**EFG EUROBANK**	
15 June '10	από Baa3 (On Review) / P-3 σε Ba1 (Stable) / NP	-	-	-	-

30 Apr. '10	Downgraded to Baa3(On review) from A3 (On review)	27 April '10	Downgraded by 3 notches from BBB(Neg)/A-2 to BB (Neg) /B	9 Apr. '10	Downgrade to BBB- (Rating Watch Negative) from BBB (Neg.)
23 Apr. '10:	On review for possible downgrade	16 Mar.' 10	Removes Credit Watch Negative - Affirms Negative Outlook	23 Feb. '10	BBB (Neg)
31 Mar. '10	Downgraded to A3 (Neg) from A2 (Neg)	Dec.' 09	Downgrade to BBB with Credit Watch Negative	Dec '09	BBB+ (Negative), following downgrade of Greek Sovereign Rating
3 Mar. ' 10	On Review for possible downgrade	May '09	BBB+ (Negative)	March ' 09	A- (Negative)
Febr.'09	A1 (Negative)	Dec.' 08	A- (Negative)		
	Moody's		**S&P's**		**FITCH**
PIRAEUS BANK		**PIRAEUS BANK**		**PIRAEUS BANK**	
15 June '10	από Ba1 (On Review)/NP σε Ba1 (Negative) / NP	-	-	-	-
30 Apr. '10	Downgrade to Ba1 (On review) /ST: NP / SenD: Ba1 / SubD: Ba2	27 Apr ' 10 :	Downgraded by 3 notches from BBB(Neg)/A-2 to BB (Neg) /B	9 Apr. '10	LT: BBB- (RWN) / ST : F3 (RWN) / Senior debt: BBB- / Sub Debt : BB+
23 Apr. '10	Baa1 On review for possible downgrade	16 Mar. '10	Removal of CW Negative - Ratings Affirmation - Negative Outlook	23 Feb. '10	LT: BBB (Neg.) / ST : F3 / Senior debt: BBB / Sub Debt : BBB-
31 Mar. '10	Baa1 (Neg) from A2 (Neg) / ST: P - 2 / SenD:Baa1 / SubD: Baa2	Dec.' 09	LT : BBB / ST : A -2 / Senior debt: BBB / Sub Debt : BBB - (CW-Neg.)		
3 Mar. ' 10 :	On Review for possible downgrade	May '09	BBB (Stable)	Dec '09	BBB+ (Negative), following downgrade of Greek Sovereign Rating
Jan. '10	LT : A2 / ST: P -1 / Senior debt: A2 / Sub Debt : A3	Dec.' 08	BBB+ (Negative)	March '09	A- (Negative)
Feb '09	A2 (Negative)	Oct.' 08	BBB+ (Stable)	July '07	A- (Positive)
Dec.'08	A1 (Negative)	Feb. '08	BBB+ (Positive)	Aug.' 06	BBB+ (Positive)
April '07	A1 (Stable)	Oct.' 06	BBB+ (Stable)	Dec.' 03	BBB+ (Stable)
June '04	Baa1 (Stable)				

With respect to the country itself the rating companies have followed the same path. Devaluation of the economy in a very short period of time following an identical policy, leading to devaluation of the economy eliminates credibility increasing the country risk. Rating companies have devaluated the Greek economy by 7 to 9 levels in an 11 month period. This development has damaged the economy to a great extend. Spreads went up and investment confidence disappeared.

The proposed model in this research consists of 6 different components each one taking into consideration certain variables with a strong rationale behind them. Starting from corporate financial reporting, which is actually the only component used by the rating companies, the model goes around and considers other components in an attempt to create an independent holistic framework able to evaluate to the greatest degree the financial health of a bank or a country from the start point of conformance to performance.

Therefore the corporate financial reporting consists of:

- International Accounting Standards
- Foundation- Structure (IASB, IASC, IFRIC);
- Implementation of IFRS for publicly traded companies in Europe;
- The impact of accounting differences between IASs and US GAAP is narrowing;
- SEC should consider accepting IASB standards without condition;

- The exact content of IASs may not be the same as U.S. GAAP, but in many ways the approach and degree of detail are similar. IAS and U.S. GAAP are more similar than dissimilar and the movement toward harmonization is bringing them closer and closer.

Financial statements are also considered seriously by the rating companies:
- Balance sheet;
- Income statement or P&L Account;
- Performance key metrics indicators (profitability, liquidity, solvency).

The structure of the bank's balance sheet is characterized by three features:
- Low cash to assets (fractional reserve banking);
- Low capital to assets (high leverage)
- Maturity mismatch (combination of short-term liquid liabilities withdraw able on demand on a first-come-first served basis and longer-term highly illiquid assets).

These three features which define the business of banking are also the source of financial fragility and the cause of regulatory practices. For the banking industry the most common financial ratios used, arising from a bank's financial statements, are:
- Size of the firm. Total assets of the bank and sometimes the total amount of the interest bearing assets of a bank.
- Financial accounting variables. Equity to total assets, Loan-loss reserves to total assets, Loans past-due 90 days to total assets, Non-accrual loans to total assets, Loan-loss provisions to total assets, Charge-offs to total asset, Annual return-on-assets, Annual return-on-equity, Historic and Current Profitability, Liquid assets to total assets, deposits to total assets, loan to deposits, spread or margin.

Risk Policy in Europe consisting of:
- Basel Committee on Banking Supervision;
- Basel I;
- Basel II.

The capital requirements is the widely spread regulatory tool but no panacea. According to the CAMEL procedure, which used for supervisory purposes in the USA, there are five elements; Capital, Asset quality, Management, Earnings and Liquidity.

The new capital framework (Basel II) consists of three pillars:
- Pillar I - Minimum capital requirements (sets minimum acceptable Capital level) to cover: Credit risk. Market risk. Operational risk;
- Pillar II – Supervisory review process of capital adequacy In order to ensure banks have good monitoring and management of risk processes;
- Pillar III - Market discipline and disclosure.

Basel II provides three approaches of increasing sophistication, to calculate credit risk-based capital:
- Standardized approach, which relies on external ratings;
- Foundation, internal ratings-based approach, which allows banks to calculate their credit risk based capital on the basis of their internal assessment of the probability that the counterparty will default;
- Advanced and most sophisticated approach, internal ratings-based (IRB) approach which allows banks to use their own internal assessment.

The appropriate indexes for RMP could be summarized from the above analysis at the following indexes:
- Economic Capital to total assets;
- Regulatory Capital to total assets;
- Regulatory Capital to total Risk Weighted Assets;
- Risk Adjusted Return On Capital (RORAC) which is the Return On Capital index.
- Furthermore, consistent risk-adjusted performance measures based on RAROC or value added targets may subsequently play a role in the compensation process.

Corporate Governance in Europe is a new development which must be taken into account seriously. Some of its components are:
- Internal audit;
- Audit committees;

- Sarbanes- Oxley Act 2002;
- Accounting Oversight Board;
- Auditor Independence;
- Corporate Responsibility;
- Enhanced Financial Disclosures;
- Crime-Fraud Accountability.

The quality of corporate governance is represented by the level of a Governance Index. These Indexes incorporates answers for the following questions which are referred to several governance positions of a Bank.

Audit comprises measures such as:
- Does the audit committee consist solely of independent outside directors?
- Were auditors' ratified at the most recent annual general meeting?
- Are consulting fees paid to auditors less than audit fees?
- Does company have a formal policy on auditor rotation?

Board of directors comprises measures including, among others:
- Size of board
- Is the CEO and chairman the same or are their duties separated?
- Is shareholder approval required to change board size?
- Is board controlled by more than 50% outside directors?
- Is the compensation committee comprised solely of independent outside directors?

Charter/by laws comprise measures, including among others:
- Is a simple or supermajority vote required to approve a merger?
- Are shareholders allowed to call special meetings?
- Can board amend bylaws without shareholder approval?

Director education:
- Has at least one member of the board participated in an ISS accredited director education program?

Executive and director compensation, including among others:
- Were stock incentive plans adopted with shareholder approval?
- Is option reprising prohibited?
- Do directors receive all or a portion of their compensation in stock?

Ownership, including among others:
- Do directors with more than one year of service own stock?
- Are executives/directors subject to stock ownership guidelines?
- Extent of officers' and directors' ownership of stock to a level over 30%?

Progressive practices, including among others:
- Does mandatory retirement age for directors exist?
- Is performance on board reviewed regularly?
- Is a board-approved CEO succession in place?
- Do director term limits exist?

State of incorporation:
- Is company incorporated in a state without any anti-takeover provisions?

Corporate Social Responsibility and Sustainable Development in Europe:
- Global Reporting Initiatives (GRI) Directives;
- Economical;
- Environmental;
- Social: Society, Labor Practices and Decent Work, Human Rights, Product Responsibility;
- ISO;
- Social Accountability International (SAI) - SA 8000;
- Accountability AA 1000 Series.

Especially for the part of environmental corporation policies there are the following councils:
- CEP, Council on Economic Priorities Corporate Environmental Data Clearing House Reports;
- EPA, Environmental Protection Agency Online Databases;

- FEC, Federal Election Commission;
- IRRC, Investor Responsibility Research Center Corporate Environmental Problems;
- AA1000 focuses on the process of reporting on how businesses must link the principles of accountability and sustainability.

The social disclosure rating based on Global Reporting Initiatives GRI 2002 Guidelines is presented here. The rating covers wide range of firms' social impacts measures and it can accommodate the users of firms' CSR reports to assess firms' social performance both in hard and soft disclosure items.

A number of methods are available for Stockholders' Value Creation (SVC) as:

- Strategic Balanced Scorecard;
- Balanced Scorecard;
- EVA, Residual Income (RI);
- Other Business Performance Management Tools (ROI, Residual Income)

For our analysis it seems to be suitable the usage of a Residual Income Models. Especially for the banks the most famous profitability ratio is Return on Risk Average Capital (RORAC) or from an equivalent way Return on risk weighted assets of the bank which is applied in residual income models for banks. The residual income according to the residual method is equivalent with historical profitability metric which is defined as the movements of equity accounts arising from operational activities of the bank. The banking industry is strongly affected and affects in the external economic environment. Generally, the main characteristics of the banking industry are:

- Banks have dominant position in economy financial system of a country, and are the most important engines of economic growth;
- Banks are typically the most important source of finance for the firms in a country and with this way affect the macroeconomic figures;
- Banks are usually the main depository for the economy's savings;
- Economies have recently liberalized their banking systems through privatization/disinvestments and reducing the role of economic regulation.

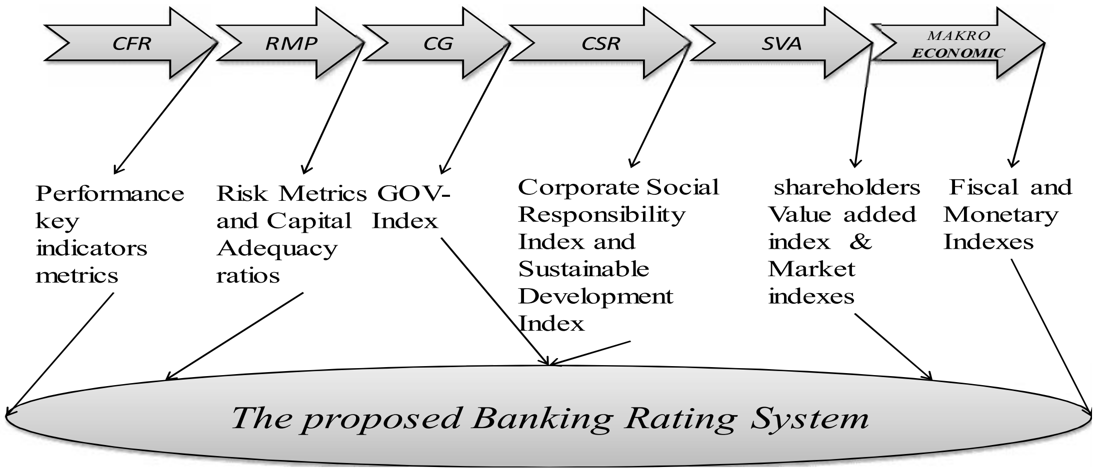
The indicators for financial structure of a country which may have influence in bank's rating system generally are:

- Equities % GDP;
- Government bonds or Government Debt % GDP;
- Private bonds % GDP;
- Private bonds plus banking loans and credit allowances % GDP or Private Debt;
- Bank assets % GDP;
- Total (the sum of Equities, Government bonds, Privet bonds and Bank Assets) % GDP.

5. The Model

The proposed rating framework requests to take into account all the components which have been mentioned above, CFR, RMP, CSR&SD, SVA and, MACROECONOMIC by using the appropriate ratios into a holistic model. Table 5 represents the structure of the model.

Table 5
The framework of transparency and responsibility as a framework for rating purposes in the banking industry



A model for measuring banks financial health has to fulfill the European Central Bank's (2006) acceptance criteria for third-party rating tools within the Euro system, Credit Assessment Framework and the proposed banking rating system. The study constructs a model using all the above mentioned components using data from the Greek banking industry. In fact 11 biggest Greek banks for the period 2005 to 2009 have been used. Besides the fact that there are limitations regarding sufficient ratios and data for all factors as they are described above, such as CAD ratio, social rating indexes, CG indexes, alternative ratios are used in order to solve partially the problem.

The dependent variable which is used is:

$SCORE_{jt}$: *rating of financial strength*,

- Taking values from 1 (very good strength) to 21 (bad strength), according to Table 2.
- For j= 1…m: for m=11 Greek Banks and
- For t=2005S1… 2009S2 (semi-annual), 10 time series data per bank.
- The source of data is the demonstrated Rating Agencies Reports and in the case that different rating agencies give different rating level the proposed model takes the arithmetic mean.

The independent variables are presented in Table 6.

(please insert Table 6 here)

Thus, the proposed model is represented by the following equation:

$$SCORE_{jt} = b_0 + b_1 LEV_{jt} + b_2 LM_{jt} + b_3 CPMR_{jt} + b_4 ASLN_{jt} + b_5 CG_{jt} + b_6 CSR_{jt} + b_7 ASE_t + b_8 CR_t + b_9 GDI_t + b_{10} TASLN_t + b_{11} SM_{jt} + b_{12} BVP_{jt} + b_{13} HPMR_{jt} + u_t$$

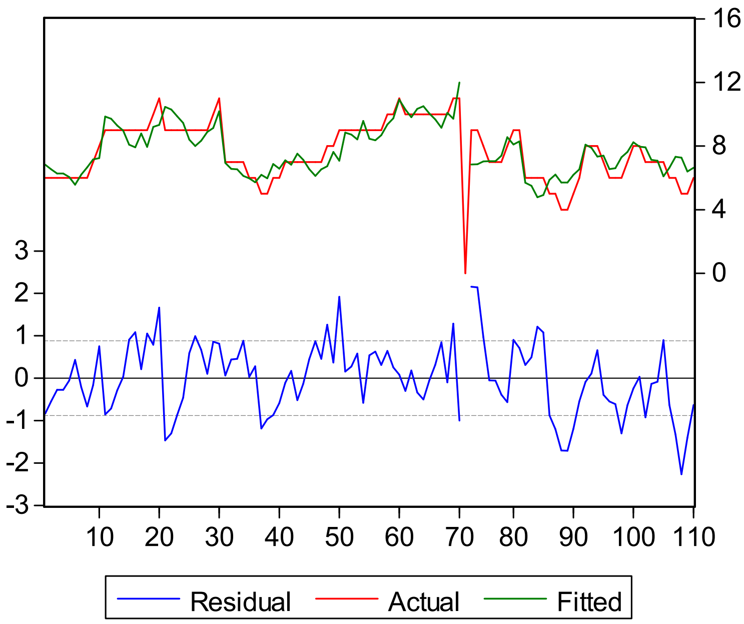
Where all variables as defined in the text and u the stochastic term.

Because of cross sectional data the most suitable estimation method is the Panel Least Squares. Also because of multicolinearity among the independent variables GDP has been selected as a proxy variable for ASE, CR, GDI and TASLN variables.

Dependent Variable: SCORE
Method: Panel Least Squares
Date: 06/27/10 Time: 18:22
Sample: 2005S1 2009S2
Cross-sections included: 11
Total panel (unbalanced) observations: 109

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.03542	2.631235	9.514701	0.0000
LEV	-2.436842	0.862338	-2.825855	0.0057
LM	1.209894	0.796271	1.519449	0.1319
CPMR	-77.74614	18.47378	-4.208458	0.0001
ASLN	-0.555242	0.124110	-4.473774	0.0000
CG	0.328670	0.112096	2.932049	0.0042
CSR	-0.137698	0.076179	-1.807566	0.0737
SM	-35.60282	4.900772	-7.264738	0.0000
BVP	0.556057	0.222915	2.494477	0.0143
HPMR	15.99010	5.865622	2.726070	0.0076
GDP	-1.84E-05	6.95E-06	-2.645714	0.0095

R-squared	0.763872	Mean dependent var	7.724771
Adjusted R-squared	0.739777	S.D. dependent var	1.726008
S.E. of regression	0.880471	Akaike info criterion	2.678736
Sum squared resid	75.97251	Schwarz criterion	2.950340
Log likelihood	-134.9911	F-statistic	31.70294
Durbin-Watson stat	0.703800	Prob(F-statistic)	0.000000



6. Summary, Conclusions and Recommendations

A holistic framework for measuring a bank's financial health by classifying its main responsibilities between conformance and performance has been proposed using well known measures related to European legislation of the banking sector such as corporate financial reporting (CFR), risk management procedures (RMP), corporate governance (CG), corporate social responsibility and sustainable development (CSR and SD), stockholders' value creation (SVC) and macroeconomic environment.

The main conclusions for each of the above components have been summarized as follows:

For the CFR component: It remains important especially for the financial ratios, categories and amounts. The framework in which these ratios are produced, in fact, the exact content of IASs may not be the same as U.S., GAAP, but in many ways the approach and the degree of detail are similar. IAS and U.S. GAAP are more similar than dissimilar, especially for the quality of financial ratios which are used in the proposed model. Many movements toward harmonization have already occurred, bringing them closer and closer.

For the RMP component: It is clear that this component is required in a rating model. Quantitative approaches like CAMEL, Basel I and II as well as CAD I, II and III are serious attempts to finalize the framework of regulation and supervision for the global banking system to be used as a managerial tool of risk in the banking industry and thus a financial health model has to take these ratios into account.

For the CG component: The quality of management could be represented by quantitative indexes, which are highly correlated with profitability and financial health in the banking industry. For these reasons the proposed model of banks' financial health has to take into account CG indexes.

For the CSR and the SD components: Through these procedures a company can affect the economy, the society and the environment. Corporate social responsibility and actions for sustainable development depend on management's initiatives. Quantitative indexes which describe CSR and SD in a bank rating model of financial health, have to be intergraded especially those according to Global Reporting Initiatives (GRI) 2002 or to AA1000.

For the SVC component: Besides the fact that SVC retains main instruments for corporate management with a traditional way the indexes of SVC could be transposed with elements to manage totally risk and total performance of a bank and for this reason it has been included in the proposed framework of the model.

For the macroeconomic environment component: This remains a main feature of the rating system of the banking industry. This is because the banking industry has a direct influence on the macroeconomic environment, while at the same time it is influenced by it.

According to this article a holistic framework for measuring a bank's financial health have to incorporate all the above mentioned factors. The future role of rating agencies seems to be further expanded with and after the implementation of Basle II. Nowadays there is, especially from the side of Europe, a critical position against these agencies mainly because lack of transparency in methodologies (nobody knows the rating method) and for not consistent ratings, especially before and after a financial crisis or a debt crisis with no any forecasting ability.

With respect to the empirical evidence and with the use of data from the Greek banking sector for the period 2005-2009, it is concluded that the financial rating scores as proposed by the rating houses are of limited reliability since they fail to support funding with real market data.

There is no visibility in the variables used and there is no comparison among them. On the contrary the proposed model takes into account not only financial variables but also the macroeconomic environment of the country where the bank operates as well as the monetary environment. The existing rating system has arrived in a clear conclusion. Rates proposed by rating companies need improvement. The proposed model takes ten independent variables and by using the Panel Least Squared method it has calculated the coefficients of the model with quite good results.

In the future the use of all the components mentioned above will permit more accurate estimations and an opportunity to construct a holistic way for global banks' rating.

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Modelling the Choices of Romanian Consumers in the Context of the Current Economic Crisis

Madalina Balau[1], Doinita Ariton[2]

Abstract: Consumption is a key factor of the nowadays post-industrial society, while it is a real engine of production, diversity of offer and demand, and motive for innovation. On the other side, consumption can be harmful to the same society and to environment if it develops in an un-sustainable way. That is why, understanding the consumer behaviour is of great importance not only to satisfy his or her needs but also to find appropriate means to educate people and issue policies that can lead to sustainable consumption and development. The paper presents some models and theories regarding the consumer behaviour and proposes means to influence consumption characteristics and habits of people. The modelling approach is deterministic, using Expectancy-Value theory, taking into account not only explicit (rational) choices but also habits or incentives (non-rational choices), in a weighted quantitative model. The novelty of the approach consists in the way non-rational choices are taken into consideration for the existing model, and on how it is used in determining directions for sustainable consumption. The study is developed on public data regarding consumers of general goods in Romania.

Keywords: consumer behaviour models; Expectancy-Value Theory; sustainable consumption.

JEL Classification: M0; M1; M10

1 Introduction

Today, in the frame of the "consumer society" it became very important to study the consumer's behaviour and its impact in various aspects of the society. In the common view of nowadays citizen, the consumer rights and consuming in general are obvious everyday matters that, perhaps, do not matter at all but satisfying some needs – in general or in special ways. However, the actions that any kind of consumer may take, and choices they make, lead to a certain range of products and services for a specific way to live. All these actions have direct and indirect impacts on the environment as well as to community and to personal states.

From the point of view of the consumer, also of the goods suppliers, everyday and special needs should be satisfied in the best way. From the point of view of the community, also the policy makers, every consumers' actions and their impact on the environment should comply with some standards and restrictions. The dynamics of the society put the two categories of actors face to face and both facing the sustainable development desirable needs for saving the future of the earth and the humanity.

For the reasons above, the consumer's behaviour and consumer culture are of greatest importance; hence, the scientific world is concerned on: (1) why consumers behave in certain ways? (2) what factors shape and constrain his or her choices and actions? (3) when do people tend to preserve environmental or social values and how could they be encouraged? What changes should be made in their attitudes and in the global/local policy to encourage, motivate and facilitate more sustainable attitudes, behaviours and lifestyles?

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The present paper tries to raise questions above from a point of view of the consumer behaviour in Romania. The modelling of the consumers' behaviour uses the Expectancy Value Theories and the case study regards some facts on Romanian people reaction on environmental and social matters linked to sustainable development.

2 Theoretical Models for Consumer Choices

After some authors (Miller 1995), the consumption represents the 'vanguard of history', in the sens that it is an engine of the modern society. Besides its functional role in satisfying needs (as food, housing, transport and recreation) it is also involved in processes of social identity and distinction, a status of the person in the society. The symbolic role of the consumer goods facilitates the social status and cohesion, personal and cultural meanings of individuals

However, consumption is not an exercise of deliberative choice, while much of the time people find themselves in an unsustainable and unconscious consumption patterns. The consumer's blockage occurs through some incentive structures and institutional barriers brought by society, position and quite advertising matters, or by habits, routines, social norms and expectations or cultural values. So, any model should take into account some 'deterministic' parts of the intentional and conscious consumption and parts of 'un-deterministic' consumption coming from habits and incentives.

There is always a tension between simplicity and complexity in modeling the consumer behaviors. The more complex models can increase the theoretical understanding but are too little structured to be suited for an empirical quantification of attitudes and intentions (for instance). The less complex models can provide the needed empirical quantification but might hinder the conceptual understanding, since they might exclude some variables or some key relations among them.

Another inherent problem on the behaviour modelling comes from the variables' types which one should measure by various models. In the first place, the researcher can discriminate a set of approaches which can be studied as behaviour models, regarding *internal* processes and characteristics of the person: attitudes, values, habits, and social norms. The other set of approaches will study the behaviour related to *external* processes of the person: fiscal discounts, legislative advantages, institutional and social restraints.

The 'internalist' approach was observed especially in subjects like social psychology; the 'externalist' cognitive approach was mainly applied in subjects such as behavioural analysis and institutional and evolutionary economics. However, differences between subjects are not always abrupt and immediate. For example, some early sociological work on consumption have characterized modern consumers in terms of behaviour 'envious', while they were designed (mainly) as a response to internal cognitive processes. Subsequent consumption sociology approaches put more emphasis on external constraints, on consumption 'practices' and on 'social logic' of the consumer's behaviour. Marketing studies usually adopt a more eclectic approach, taking ideas from both perspectives, and tending to focus on important economic or ethnographic matters which may reveal consumer tastes and preferences.

It is fair to say that such kind of tensions are far from being solved. There have been several ambitious attempts - for example by Bagozzi and his colleagues (Bagozzi et al 2002) and by Stern and his colleagues (Stern 2000, Guagnano et al 1995), attending to build coherent patterns for consumer 's behaviour, able to capture both 'internalist' and 'externalist' dimensions in the consumer's choice

However, there exist an enormous variety of models which are more applicable - some quantitative and others qualitative. They can be used to explore the consumer's behaviour as it is summarized in. Table 1. A number of common models are suitable for questioning the consumer's behaviour but that does not exhaust possibilities of modelling on this topic.

Table 1. Socio-Psychological Theories on the behaviour and change

Socio-Psychological Theory	Key authors	Description
Cognitive Dissonance Theory	Festinger 1957	Consider that people tend to avoid contradictory beliefs, attitudes and values to them.
Expectancy-Value Theory	Fishbein 1973, Ajzen and Fishbein 1980	A class of theories (such as theory of rational choice) based on the idea that behaviour is motivated by expectancies and values we promote
Interpersonal Behaviour (TIB)	Triandis 1977	Similar to the theory of Reasoned Action TIB comprises both the expectancy and normative belief. Hoever, TIB includes also the influence of habits social and affective factors of the behaviour.
Means End Chain Theory	Reynolds and Olson 2001	The expectancy-value theory in a qualitative form, in a layered relation of preferences related to attributes, consequences and values.
Normative Conduct	Cialdini, Kallgren and Reno 1991	It considers that the behaviour is guided by social norms – which inherently are either descriptive (what is done) or restrictive (what has to be done), and the strengths of those types of norms depend on multitude of factors in the current context.
Self-Discrepancy Theory	Higgins 1987	It suggests that peoples' motivation is stimulated through sentiments induced by the gap between the real and ideal situations of them.
Structuration Theory	Giddens 1984	It tries to offer a model for the relation between action and structure (social or institutional context). It is based on the distinction between practical and discursive consciousness.

3 Romanian Consumer Choices in the Context of the Economic Crisis

The theory of planned behaviour (Ajzen and Madden 1986, Ajzen 1988, Ajzen 1991) has it's starting point in the Theory of Reasoned action, specially designed for contexts where actions are not under the control of will. Thus the model includes besides the variables of beliefs, evaluation of consequences and subjective norm a new variable known as perceived behavioral control (PBC) as an indicator of intention as well as action. PBC "the person's belief as to how easy or difficult performance of the behaviour is likely to be" (Ajzen and Madden 1986). Ajzen (1991) offers two arguments in support for this hypothesis. Firstly, he claims that keeping intention constant, the success rate in performing the intention depends of the strength of our belief that we can perform that specific behavior. Secondly, Ajzen claims that the perceived behavioral control can be used as an indicator of the control over the performed behavior. PBC is able to correctly indicate the control over the performed behavior leading to a strong correlation between intention and behavior.

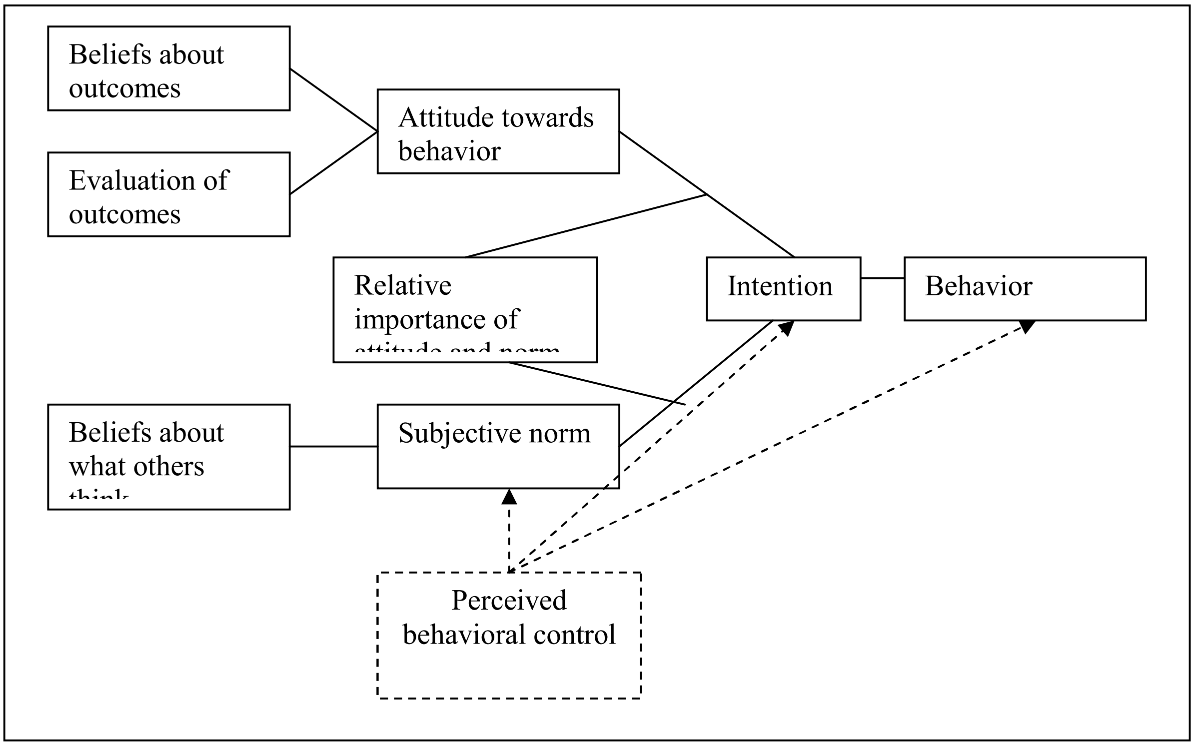

Figure 1 Theory of Planned Behavior

The Theory of Planned Behavior is a model that deserves to be tested in the Romanian consumer context, as it is a very commonly used model to understand behavior but it's assumptions were tested only on western consumers and not on Romanians. The problem within this aspect is the fact that the freedom of choice for the Romanian consumer has started to be exerted only 20 years ago, and practically this freedom of choice is available to the average consumer only since 2000, when purchase power has increased as well as the diversity of products available on the market. So the question is degree in which the theory of the planned behavior is correctly predicting the Romanian consumer behavior. And if it's predictability is low, there will be needed an identification of the aspects that differ for Romanian consumer as well as the satisfaction felt as a result of these choices.

The choices of the Romanian consumer seem to have changed as a consequence of the economic crisis, at least compared to the consumption behavior between 2007-2008. Among the major changes identified in the market by the marketing departments of the companies there are some that have influenced the marketing activity on the short term. Thus, as a general trend there can be noticed the lack of a reasoned behavior. Consumers react only when stimulated by practical economic events, following a cause-effect dynamic. In spite of this, there is an increasing pragmatism in the choices made. The negotiation between quality and price becomes more important than the spontaneous and compulsive buying tendencies. As a result, consumer keeps an emotional attachment to familiar products, but becomes more rational and pragmatic concerning the new temptations.

Although quality remains an important purchasing criteria for all product categories, consumers are concerned more than in the previous periods with the price of their purchases (ISRA Center Marketing Research, 2010). Concerning food buying decisions, for example, this aspect was of major importance for 20% of the persons interviewed in February 2009 and for 26% in August 2010. During the four waves of the "Buying Habits" Study, the "price" criteria has increased for non-alcoholic drinks (from 20% to 32%), for products of personal hygiene (from 18% to 31%) and products of house cleaning (from 22% to 33%). When choosing a certain product in general, without stating the category, respondents show that the price is the first aspect they consider (42% in November 2009, 44% in August 2010). As well, during the last nine months, there is a significant increase in the percentage of consumers who consider or will consider the promotional campaigns (from 35% last year, to 41% in present).

4 Conclusions

The consumption behavior of the Romanian consumer has insufficiently been studied in the scientific research literature. The usual approach consisted of marketing researches aimed at increasing short term sales, and have as a starting point the behavioral models tested only in the western context, where there is a long history of freedom of choice for the consumer. On the short run some of these studies produced the results for which they were conceived, but there is a lack of scientifically testing the assumptions behind the behavioral models used. This situation makes the Romanian consumer remain an economic actor with a very unpredictable behavior, when this situation could be improved with better tailored tools for collecting data and especially a new insight on how information in interpreted.

The aim of this paper was to identify a theoretical model concerning consumer choice that could be further tested on Romanian consumers in later research.

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REALITIES AND PERSPECTIVES

Management of Labor Conflicts in Public Health Organizations

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Abstract: The work "Management of labor conflicts in public health organizations" treats a very important issue, of the present, with extensive and multiple implications for public health. The work can be considered as an interdisciplinary study justified by two arguments: first, it is essential to applied research step, the knowledge and use of enshrined informational content in management literature, especially of models and mechanisms of managerial activity on the administration of human resources, managerial style, mobilization capacities, communication, coordination or decision ones and, not least the mechanisms characteristic to collective relations established between managers and employees; second, it is required for the implementation phase of research findings, capitalization of an informational sphere of law field, specifically, labor law, because labor conflicts are based both on specific regulations of labor law and on a juridical literature, of great interest and of strict use for a concrete optimization of labor social relations.

Keywords: management; labor conflicts; public health organizations; manager; public health organizations

1. Introduction

The work highlights, as a work concentrating on labor conflicts management in public health organizations, the possibilities to improve the relations among the following three factors:

- management, understood as the formal ability of the leader to achieve performance in the organization's work with people;
- labor conflicts, i.e. conflicts between health professionals and public health organizations with which they concluded the individual employment contract, based on failure to resolve claims of professional, economic, social character or not giving rights that are based on labor law, labor collective contract or the individual employment contract;
- public healthcare organizations, defined as public institutions entirely financed from own revenues made under contracts with Social Health Insurance Houses. Without a doubt that the activity of all healthcare organizations is influenced by economic or social factors, but as resulting from the findings of this study, internal managerial factors have a determined role in preventing labor conflicts and, as a consequence, in optimizing psychological climate at work, thus ensuring a good quality of health services.

We found that healthcare organizations can feel a "management pressure" forcing inert systems and structures to become more flexible and to be concerned with the implementation of modern practices specific to management in healthcare organizations. In healthcare there must be exceeded the "necessity management" characterized by resorting to management only when crises or conflicts reach climax. It is true that we can learn something from crisis or conflicts, we draw conclusions, but the consequences of the unsolved crisis or failures of unsolved conflicts, in due time, are very costly.

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Organizational development and management in healthcare organizations is a productive orientation. Organizational development process requires common research approaches and particular needs of each health system hospital organizations. Research can provide decision-makers to materialize concrete conclusions and proposals which can ensure a better state of the system and a psycho-socio-professional climate in hospitals that can prevent conflicts and optimize the relationship with beneficiaries.

2. Paper Preparation

The conflict has always existed and still exists between people, either separately or in groups of one kind or another. Wherever there are people there are also ideas, values, circumstances, styles and standards that may conflict, which means that anything can cause a conflict: objectives, goals, aspirations, expectations unconfirmed, habits, prejudgments, personalities and ideologies, competition, sensitivity and offence, aggression and many more. Therefore, the conflict between people is installed, in all situations and, it is humanly expressed at any stage, and the attempts to analyze or solve it which do not take into account these truths are doomed to failure. With all that, there are many conflicts that are not minor, but may be more serious because they can damage the morale, behavior, positive or supportive attitude of staff performance.

Also, like any social organization the existence and dynamics of any organization requires both cooperation or dialogue and conflict because conflict is an inherent organizational process. Given the inevitable character of conflicts, it results that management is one of the most important activities, and the management of conflicts is considered by more and more specialists in the field as being as important as the other functions of human resources management. The causes of labor conflicts to organizational level are multiple: lack of communication; lack of open communication, honest, sincere; faulty communication, intermittent, truncated; spread rumors, fake information; major differences between the perceived value system of managers and that of their employees; predominantly or exclusively authoritarian management; ambiguous management, which lacks clarity and consistency; dependence of the organization on external factors; impossibility to achieve the objectives assumed by the organization due to irrational planning; lack of a personal politics regarding the development of human resources; perceptions and misinterpretation of social, economic or legal events; reinforcing a climate of anxiety and mistrust; unacceptable discrimination in industrial relations.

Not every labor conflict must be qualified as "destructive", since there are specific instances in which the result of the employees' will has a positive sense, in one way to correct organizational or decision errors and, on the other to reestablish some broken rights or wrongfully not given .

In this kind of situation, the labor conflict is considered as being "beneficial" and there are imposed the following recommendations: the solving of the conflict must begin at the first signal of divergences; the communication between the parts must be direct, sincere, complete; the dialog must allow each part to expose all its arguments; the parts must show availability to solve the main issues and the details; they must start from the idea that the parts can gain equally by solving the declared state of conflict, in other words, it is not wanted the advantage of one party at the expense of the other.

Depending on the situation, conflict management must be understood as a management of success. The conflict must not be perceived as a negative force but as a positive force which may determine new performance in the organization. In this sense, the manager must find how the conflict can be directed and managed to maximize its positive effects and reduce the negative ones. Predominantly authoritarian management lacks efficiency and it is ambiguous, lacks clarity and consistency. Employees should be helped and encouraged by positive motivation and not manipulated and blackmailed with the loss of some rights including their jobs.

Establishing the healthcare organizations included in the case study. In order to verify the mentioned work hypothesis we decided to include in the scope of the investigation only public organizations and so we chose among healthcare organizations: „Filantropia” Municipal Clinical Hospital in Craiova, The Municipal Hospital of Băileşti and The City Hospital of Calafat.

All three organizations are healthcare units of public use with legal personality, having as main object of activity the supply of medical services. We found within each of these organizations a conflict of rights that started at the beginning of 2006 and continued during the entire year of 2007: they did not receive individual food allowance (in the form of meal vouchers).

The mentioned hospitals were ordered by an internal decision that in the budget revenue and expenditure of healthcare organization there are provided food allowance amounts only to employees who work in the sections with beds and not to those who work in outpatient (former clinic) or school medical cabinets. In this way, the personnel of the outpatient and school medical cabinets were convinced by the managers for an entire year that they were not entitled to receive meal vouchers because the state budget law said that. Lacking a legal training and a full trust in their manager, the staff that had this right denied continued its work, in silence, in spite of the discrimination for meal vouchers. After a short while this category of staff became aware of the illegality of the disposition of the manager and triggered the conflict of rights.

The conflict of rights for the denial of meal vouchers could have been prevented or even resolved without the intervention of the court. Thus, outside the optimal working climate which ensures in all the cases a high performance and for the organization a high efficiency, the money funds would have not been touched to pay court expenditures and revised amounts including the inflation index. Retaining the criterion of internal communication, the managers in the investigative sample proved deficiencies under the following aspects:

a. In his quality as a leader he/she did not know how to communicate, and the purpose of managerial communication consists in achieving efficient and effective information both vertically and horizontally. Communication of each manager with chief accountant regarding to respect a right of the employees by legal norms and by the clauses of collective contract of labor for healthcare branch proved lack of information and the dismissal of arguments of the legal advisor regarding a legal right led to the outbreak of a labor conflict and not to its prevention.

b. When coordinating, the managers have defied operational feedback when employees informed them of the legal content of applicable law. Thus, both labor law specialist (counselor of Healthcare Organization), and employees advised by the lawyer were irrationally rejected by a manager who had no idea on managerial communication.

c. When the court was notified and saw the content of the actions brought by the lawyer chosen by the employees, the manager had to be reconciled and recognize the justified claims of healthcare staff. He preferred to insist on his vulnerable decision thus bringing prejudice to the patrimony of the Healthcare Organization.

d. The managers did not know how to use the specific guidelines of communication during a crisis or professionally approach the conflict. At the first hearing it was appropriate that the managers solve the conflict already existing to support the granting of rights issue. If managers had recognized at that phase that the claim of their employees were satisfied then the Healthcare Organization were no longer obliged to pay the court costs and could have been avoided that prejudice because of incompetence, to the organization.

First investigation aimed at understanding and use of components of the motivational process in order to prevent labor conflicts in Dolj public health organizations. Organization as a whole can provide the context that can achieve high levels of motivation by providing incentives and rewards, work satisfaction and learning and developing possibilities. Motivation at work must take place in a procedural not episodic manner, it must settle a stimulating and rewarding feeling and not to draw some confusing views. Hence, we opted for a relevant method in order to know the role of motivation in preventing conflict situations: opinion survey. People are showing an external view, which can be passed through a filter of self-censorship, protecting themselves from possible consequences resulting from sincerity, sometimes upsetting, of telling the truth, as may hide (or not) an internal view, a faith or belief considered fully consistent with objective reality. The researcher must be capable to win the cooperation of the person investigated, ensuring anonymity to his/her opinions and their use in professional or social practice interpreted in a statistical context. The case study proved that in healthcare units where the manager proves a preoccupation for motivational process, there is a positive correlation with equity division and with procedural equity and the consequence is expressed by a state of contentment, in an optimal working climate, with no conflicts.

Without being removed the financial incentives policy, the manager must introduce in the motivational process the complementary ways of motivation, the core of which must be behavioral strengthening, i.e. evidence, praise. Thus, health professionals accept, even justification for lack of funds for cash rewards and appreciate participatory, encouraging style practiced by the manager. Work performance can certainly be stimulated by using tactful, psycho-behavioral techniques towards which the attitude of the healthcare staff is always friendly and rally.

The manager can provide valences to motivational process specific to high quality and performance, if it keeps in mind the following key principles:

a. motivation must be equilibrated by the ability of the employee. Thus, it is not sufficient for an individual to be well motivated to do a certain thing, if that person does not have the skills, knowledge , experience, etc. to do so. The inexistence of such equilibrium between motivation and skills leads, most of the times, to the failure of some motivational programs promoted by companies;

b. the existing individual differences when choosing the reasons: people are motivated by different things, the same motivational program can have success to some employees and prove inefficient to others. That is why, it is necessary to consider the individual differences when elaborating some motivational programs;

c. motivation of employees cannot be evidenced for each and everyone because cannot be perceived on site, i.e. directly; the dynamic nature of motives: the factors which motivate individuals are changing, because the employees must deal with new conditions, maturate or regress etc. This has direct consequence on motivational programs: many of the managers observe that the people they work with do not answer favorably to motivational forms used in the past and yet, they do not give up in using them. The conclusion is clear: motivational programs must be based on a deep and continuous analysis of employees.

Thus, motivation is a source, a incentive to performance but should not be viewed separately from the other aspects and modalities of professional activities: organizational culture, managerial style, social signification of work, experience and structure of character of the employee. Another case study highlighted the "Impact of organizational culture on labor conflicts". Organizational culture is a type of social phenomena that cannot structurally exist with the same content "anyplace" and "anytime", i.e. private organization can have a type of culture, public organization another kind, so that among public organizations there can be identified during the research of varied modalities of culture from a public domain to another and, why not, even within the structure of the same domain to exist differences among the composing organizations, depending on the cultural criteria.

Knowing that the consolidation mechanism of an organizational culture, both managers and employees, react to internal or external events through the filter of some dominants crystallized in time, we decided the application of sociological survey made of written questions which will not disturb and will allow the same interpreting sense for all that there are questioned. The components of the culture that made the object of the present case study drawn from conclusions from other published researches by valuable authors and adapted to the realities of Romanian Healthcare Organizations, were the following: trusting climate, management of change, stressing environment, management of solving the claims and mentality doubled by daily behavior by which is characterized the working force in the hospitals.

The case study aimed to the relationship "organizational culture – working climate – conflicts" and highlighted the following:

1. health professionals proves mistrust in the autonomy of hospitals in terms of human resource allocation in line with staffing needs, capital investments (equipments, machinery), field specific purchases (medicaments, combustible etc.), insufficient understanding to use a management of information etc.

2. in healthcare organizations where the employed staff has a trust culture regarding the manager of the hospital, there is a positive working climate and consequently, there are no labor conflicts. On the contrary, the lack of trust in the manager is equal to tensioned climate and bursting of conflicts;

3. the interventions on some competence of organizational culture were synthesized in the expression "management of change" having as object the working climate. In healthcare organizations conducted by managers that prove indifferent to the nature of working climate there were noticed conflicts, comparatively to the organizations conducted by managers preoccupied with organizational changes, where the climate was optimized and the conflicts prevented;

4. mentality expresses a culture of personality expressed specifically in relations with work colleagues, professional tasks and self.

We found that healthcare professionals of surveyed organizations are satisfied with mutual relations established within daily routine, so that the structure of working climate nuanced positively on the basis of collegiality;

5. organization's culture can be a potential source of stress mainly on action and communication dimensions (i.e., what is done and what is said), and "hospital health" is permanently affected by stress factors, pressure, being possible a weakening of the public or physiologic state of the staff employed. However, hospital employees showed full accommodation to the life of healthcare organization and did not invoke the internal environmental factor as a stress factor with implications on the environment or conflicts.

Staff management, understood as a responsibility of all those who lead people as managers, must include a permanent interest towards the culture of the organization because the value orientation of the employees determinate efficiency, optimal climate and full engagement in a activity which generates satisfaction. In healthcare units, health professionals internalized the culture of a priority: the care for the inpatient. The ideal must be held only by the patient: "I was treated fairly and selflessly!"

Can the manager, by exercising his/her power as a leader to decide the prevention and solving of a conflict qualified by antagonism, with negative impact on the performance of the organization?

The answer concerns the nature of power-conflict relationship in public organization and the case study expresses the reality found in downstream healthcare organizations in the city of Craiova. The research was carried out based on the call method and questionnaire-based survey. The conversation held with some of healthcare staff suggested the development of items (questions) in terms of content, and the application of the questionnaire to a representative sample gave us the possibility to process the answers and interpret statistic values. The advanced formalization of the business of public healthcare organizations determines an appropriate formalization on organization level including on the organizational structure level. In order to avoid the probability that some arbitrary comportments of healthcare professionals may appear, the formalization of the organization means to establish who, what and whom they command. This imperative determines the distribution of management authority towards chiefs of department and other persons with responsible functions in healthcare organization. The lack of management knowledge of the one elected to lead the organization can concretize, under this aspect, in exclusive assumption of authority and implicitly in avoiding the distribution of leading forms and control.

The case study confirmed the relation between the authoritarian, individualistic power exercised by the managers of the two healthcare organizations (Clinical Hospital no.1 and „Filantropia" Clinical Hospital) and the bursting of labor conflicts in the context of a tensioned organizational climate, comparatively to another healthcare organization (Contagious-infectious diseases hospital) where the manager made a distribution of authority, and so organizational conflicts were prevented.

A manager with leadership ambitions must have an internal structure "transactional", communicative, and balanced. In spite of the conditions imposed to decisional process by the environment or internal climate of the organization, the manager has to prove availability to listen and adapt to realities expressed by human structure of the organization he/she leads. In other words, the preoccupation of the manager to accomplish the objectives of the organization and for public image must be accompanied by a cooperative attitude, empathic towards the members of the organization. The transaction does not mean indulgence or tolerance or complicity. On the contrary, it means receptivity and consistency in stimulating those who respect the performance criteria. The transactional leader establishes the clauses in working relations and respects the assumed commitment.

The case study highlighted the relation "transactional leader – labor conflict" in the two possible variants:

- healthcare organization led by a manager recognized in transactional style, work climate was favorable to the activity specific to the field, without registering any labor conflicts (Contagious-infectious diseases hospital);

- rigid manager, stuck in bureaucratic decisions, not concerned with psycho-social climate in the healthcare organization, contributed with this style in transforming the states of dissatisfaction expressed by healthcare professionals, in labor conflicts that reached the courts.

Participative management was defined, based on researches, as "ideal system", because productivity is excellent and the key word is participation. Managerial necessities of healthcare organizations request the structure of a participative manager profile, understood as "total leader", which creates an optimal working climate, prevents conflicts and ensures superior results in medical practice. Such desired relation is highlighted also by the data of this research. The investigation revealed a positive relation between participative management and psychological climate, free of labor conflicts.

In contrast with authoritarian style, participative style leans the views of subordinates towards the qualification "ideal manager". Participative manager should not be confused with the administrator of the organization who is willing to do anything possible to see accomplished the proposed or imposed objectives. On the contrary, he/she is a leader who contributes to the development of the organization counting on the collective support of which he/she respects and defends its interests and towards which he/she adopts an exclusively democratic style. Being a participative manager and having subordinates capable of performance, it supposes an effort of both parties, possible by two-way communication. Participative manager is an excellent leader characterized by: good strategist, a balanced use of formal power and freely consented authority, has the capacity to orient towards the task and also towards the people, he/she is objective – correct – just in his/her relations with the subordinates, is the adept of change because he/she is a flexible and transactional nature, inspires trust, shares a vision, has charisma and is preoccupied with the optimization of his/her own leading style.

Participative manager has permanent knowledge of the affective pulse of the participants to organizational life, he/she gets rationally involved in creating the optimal work climate and eliminates from the start any pretext generating labor conflicts. The main objective of managers in the sphere of their relations with the employees must be obtaining the cooperation of labor power to meet the objectives of the organization, i.e.: financially efficient performances (in the case of hospitals, major revenues in terms of contracts made with the health insurance houses and correlatively the reduced expenditures with labor power); the control and optimization of organizational and functional changes on criteria of efficiency; avoiding the interruption of work because of labor conflicts.

The employees are guaranteed both the right to collective negotiation and the possibility to claim for normal working conditions. Therefore, the conflicts of interests can be determined only by the misunderstandings related to collective negotiation.

The situations when there can be opened conflicts of interests are the following:

a) The unit refuses to start the negotiation for a new collective employment contract, in the case it did not sign a collective employment contract or the one before was terminated;

b) The unit does not accept the claims made by the employees;

c) The unit refuses, in an unjustified manner the signing of the collective employment contract, even though the negotiations had been defined;

The unit does not comply with its obligations provided by law to start the annual obligatory negotiations for salaries, the working duration, working program and labor conditions.

By the end of the year 2008, the people employed in the studied healthcare organizations asked the manager to start the collective negotiation because at unit level there is no collective employment contract, and the law established the obligation to initiate negotiations as being a manager's tasks. None of the managers responded favorably to the legal norm, so that it was necessary an official request, registered, of the employees' representatives.. Only in this secondary phase the managers from two public health organizations agreed to start collective negotiations which finalized as a collective employment contract.

The managers of these two healthcare organizations are doctors and they happily included themselves in the "picture" of technocratic manager, of which we learn:

- authentic technocrats are excellent managers; they work in a precise manner, rapid too, without hesitation or complexes, putting their principles into value, their models and their excellent managerial technique. As presented above, in terms of dictionaries, technocrats make possible the prevail specific issues, technical ones of a problem at the expense of social consequences;
- Technocrat managers control their emotions, maintain distance from subordinates, are serious, analytical, methodical, cerebral, conservative, profound, decided and prove, most of the times, excellence. They are respected but, they are not loved. Their power consists in their deep analysis of the situations that they completely control. They are capable to offer for any situation alternative solutions. They have the capacity to transmit to others their knowledge, which is a quality appreciated by the subordinates.
- as a strategy, technocrat managers count on alliances and prove opportunity in the programs they assume.

To the public health organizations where there started the conflict of interests, the managers made the following errors:

a. they did not start the collective negotiation and did not accept its beginning when asked by the trade union organization, even though the law obliged them to act as requested by the employees;
b. they had no legal justification for it, motivating that healthcare branch has a collective employment contract and, at organization level the negotiation would be useless. They also proved an informational deficit and a totally ineffective communication with the subordinates;
c. they did not gave in and accepted to give up their wrong, abusive and illegal point of view not even in front of the arguments presented by the delegate of labor ministry in the conciliation phase, or the mediator present during mediation;
d. they decided in a completely irrational way not to accept the presentation of the conflict of interests to an arbitrary commission that based on documentation would have certainly solved the labor conflict and the way to strike would have been stopped;

e. the rigidity of the manager and the refuse of a social dialog where economic and human arguments may prevail, propelled the conflict of interests to its peak point: the strike.

Through the conclusions of the study we express an orientation to a management of functional conflicts, i.e. to maintain an optimal level of conflict reported to the correlation to the evolution of organizational processes. This imperative scientifically motivated is dependent on the level of managerial development in the public health organization, because the management of labor conflicts represents an essential criterion to reach global managerial performances.

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REALITIES AND PERSPECTIVES

The Post-War Relations Between Romania And The World's Great Powers

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Abstract: Romania, has always been an interesting country and disputed over by western and eastern powers, also due to its geographical position. This did not change even when Romania was an independent state. Although at one time an autarkic development was pursued under communism, this was practically impossible. Necessary was to develop relations with various partners, mostly important economic forces: the West, China, the Council for Mutual Economic Assistance (CMEA). After 1990, Romania was the most uncertain country in the former communist bloc regarding its way to building a better social and economic future. In 1991, Romania was the only one that concluded an agreement with Moscow by which it practically accepted a position of subordination, while the other states firmly required the European structures to specify the conditions for their accession and integration. With a delay of several years Romania as well started the accession process trying hard to make up for the lost time. This paper analyzes the positions taken by the Romanian authorities of those times for the development of diplomatic relations with these economic powers.

Key words: national economy; Romania; CMEA; international relations; the European Union

JEL Classification: B 15; F 15; F 59; N 44; P 33; P 36.

Introduction

The economic and social life in Romania was deeply influenced by the decisions taken by major economic powers in its proximity. If in the East, after World War I, the marxist-leninist influence set in, the West registered talks around the idea of setting up the unification of European states (a detailed presentation of events is put forward by Booker, North, 2004), a very common idea among Romanian economists.

Thus, an analysis is required regarding the events that took place around World War II. The framework of this period includes a neutral period (1939 - 1940), although in 1940 the country registered considerable territorial losses and had to manage large flows of people (territorial concessions to the Soviet Union and Hungary generated waves of refugees, and with Bulgaria there was an exchange of population by yielding the Quadrilateral), which disrupted the society and the economy at national level. Then there followed the years of war along Germany against the Soviet Union and, in fact, against the United Nations. At this stage Romanian exports were directed almost exclusively to countries allied at that time in the war, relations with traditional partners being discontinued: France, partly (well-known to support - by signing a treaty with each country - the Little Entente, also called the Personal Agreement, an organization established in 1920 and 1921 between

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Czechoslovakia, Romania and Yugoslavia to ensure defence from the Hungarian revisionism and to prevent the House of Habsburg's return to governance), and the United Kingdom. Moreover, the German war machine, and Germany's needs in general, were too much for Romania's exporting power. In addition, there was also men's calling to arms that led to major imbalances in agriculture, provided the fact that this was the main occupation of an overwhelming majority of the adult population.

1. Romania Under Communism

After World War II Romania came under Soviet influence, but the imposition of the Bolshevik economic system was difficult to accomplish. This was due to the fact that the Soviets had no plan, as also shown by the idea that Transylvania should be rated independently, and run by a Hungarian prime minister before the war, or the offer presented to Antonescu regarding his actions in favor of and according to Soviet demands (Burks, 1961) in exchange for his life.

The transition of our country towards the Soviet regime took place gradually, but if trying to establish a strict period of time when it happened we can establish the period February 27 - March 1, in 1945 (Gallagher, 2005, p. 63). The Sovietization of Romania during 1944 - 1946 was led by the Russian Andrei Vishinsky and was started also by a series of political actions, such as forcing King Michael to accept a government led by the communists (the threat was related to the revocation of the country's independence). The newly installed government was headed by Petru Groza (lawyer and landowner, studied in Budapest and who enjoyed good relations with the Hungarians), and in order to pacify the Romanian position the Soviets decided in March 1945 that the entire territory of Transylvania should fall under Romanian jurisdiction.

In October 1947 a conference was held in Warsaw to establish "Cominform" (the Communist Information Bureau) which was meant to coordinate the activities of communist parties throughout Europe (Booker, North, 2004, p. 32).

In 1955, during the Geneva Conference, the issue of the Soviet military withdrawal from Romania was raised, which was completed in 1958. There was a change in attitude regarding independence towards the Soviet Union. In 1958 Romanian-Russian cultural institutions were restricted and then closed, such as the Romanian-Soviet Museum in Bucharest, the Russian Book Publishing House (Georgescu, 1983, p. 35).

In fact this distinction came amid diplomatic and economic problems. The Soviet Union (USSR) wanted the resuscitation of the Council for Mutual Economic Assistance (CMEA) which our country considered a forum for propaganda. In 1962 the Soviet plan was that the role of this Commonwealth to be played by the CMEA and that each state should focus on a particular field of activity. And as Romania had productive agricultural lands, it was to become the supplier of agricultural products, a situation which was considered as unacceptable to the national authorities who considered that the development of agriculture, and not of the industry, negatively influenced the country's chances of economic prosperity. The eloquent proof of economic independence from the decisions of the USSR within the CMEA is represented by the decision to build Galati the largest steel factory in South - Eastern Europe (the raw material was imported and brought in on the Danube, so production costs were high. In 2001 the factory had debts of 900 million dollars and state subsidies that were supposed to be paid were of $ 250 million. The government had to bear these subsidies based on clear social reasons. Galati depended on this factory because it comprised 27 000 employees and its shutting down would have affected 60% of the city inhabitants. In 2001 the government managed to privatize 80% of the national steel production, and in 2002 there were signs that the economic restructuring process was irreversible). In July 1963 the Soviets were forced to close their discussions on the idea of economic integration. There was another attempt of the Soviets to impose their views, but Dej submitted it to the vote of his party's Central Committee on April 27, in 1964, which was considered an authentic statement of independence (Gallagher, 2005, p. 72).

Regarding Romania's attitude of independence towards the Soviets, it reached its climax in 1964 when a book by Karl Marx was published related to Romanians ("Notes on the Romanians") in which observations were made on the Romanian - Russian relations, including the statement that in 1812 Russia annexed Bassarabia to its territory without the right of doing so (Burakowski, 2011, p. 48).

In 1964 occurred the Valev Plan of Soviet origin that envisaged the creation of a "supranational economic complex" which was to be set up by the Moldavian Soviet Republic, almost half of Romania and part of Bulgaria. It seems that it was profitable in economic terms, but was meant more to alert the Romanian authorities of a conflict between the two parties. Romania firmly rejected the plan.

Romania was the first country of the communist bloc that managed to establish trade relations with the West. The Romanian leaders were aware that in order to improve diplomatic relations with Western countries it had to show respect towards freedom of opinion. During 1960 – 1964 almost all political prisoners were released, the Yugoslav model was imitated and applied by Romania's Ministry of Economy, Alexandru Barladeanu, the country focusing its production on consumer goods. Meanwhile Dej pursued and succeeded in obtaining the western economic know-how.

At that time Romania did not enjoy its own diplomacy. Starting with 1959 contacts with the West were established, and these have been developed and intensified starting with 1960. Romania began to develop its own diplomatic relations in the international arena, the country's position coinciding with that of Russia. Diplomatic relations with Japan were renewed, and in 1960 an agreement was concluded with the United States of America (USA) in the field of culture and education (Păiușan, Retegan, 2002, pp. 107–111). In 1960 China criticized the Soviets and Romania began to be concerned with improving relations with China. Moreover, Romania has improved relations with Albania, the European ally of China.

The early years of Ceausescu's diplomacy are characterized by a tendency to preserve the independence trend. In 1966 he successfully opposed the Soviet plans to expand the Warsaw Pact's powers on the armed forces of the member countries (Fejtő, 1974, pp. 317-318), and in 1967 the diplomatic relations with Israel, subsequent to the Six Day War, were not interrupted, as other Communist states did. In 1968, on 21 August, Ceausescu set a clear anti-Soviet line and followed a nearby growing approach toward leaders from outside the CMEA. This led to Romania's isolation within the Soviet bloc, but was offset by the proximity of the West (actually, by richer and more developed countries which did not seek to impose a path towards economic development, which the USSR wanted to do). But this state of events was of positive nature until 1977 when they came to realize the country's serious economic problems with implications on the social welfare and unequivocally distanced themselves from the Romanian regime.

Economically, this political line had as outcome Romania's accession to GATT (General Agreement on Tariffs and Trade) in 1971, to the International Monetary Fund and to the World Bank in 1972, as well as the granting of the clause of most favored nation by the United States America in 1975 (Murgescu, 2010, pp. 356).

Following the situation generated by the invasion of Czechoslovakia and on the grounds of developing partnerships with the West (after Richard Nixon's visit to Romania in August 1969, widely regarded as successful, the authorities decided to strengthen cooperation with the U.S.) development of relations with China can also be observed, determined mostly by the desire to seek American approval. As stated above, the only European communist country that China had good relations with was Albania, and the Chinese were seeking another partner within the communist bloc. China appreciated the anti-Soviet trend. In these conditions, Romania was of much importance to the Chinese.

China's influence on the Romanian domestic politics was minimal, but globally the cooperation between the two countries was fruitful. Starting with 1968 the economic exchanges that took place between the two countries registered alert development, so that in 1968 they signed contracts worth 39 million rubles, in 1969 of 47.5 million rubles, and in 1970 of 55 million rubles. These contracts were systematically exceeded by 50% and even reaching 100%, reaching the amount of 100 million rubles in 1970. Moreover, following the floods that challenged Romania in 1970, China offered a contribution of 53 million Yuan, in the form of consumer products and machinery (Murgescu, 2010, p. 151).

Romania's position on the world map regarding international economic relations improved continuously and thus, actually, was forced to promote them properly. For Romania the maintenance of best possible relations with the U.S., China and the USSR was necessary. In 1971 there was an improving of Romanian-Chinese relations, and in June of that same year Ceausescu visited the Asian region (China, the Democratic Republic of Korea - North Korea, Vietnam, Mongolia) and both his departure and his return registered one stop in the USSR. Of particular note would be that on his return he was not received by Leonid Brezhnev, the USSR President, which leads to the perception that his welcoming was less cordial, provided that relations between China and the USSR were not particularly friendly and of cooperative character.

If the visit in 1971 to Asia (China, North Korea, Vietnam) led to, or rather, shed some light on the need to clear enunciation and implementation of the famous cultural and social restrictions on July 6, 1971 ("the theses of July"), it also left a lasting impact on the decisions to be taken in the field of economy, beyond the political one (communist North Korea was considered a much better fit and it was decided that similar actions to those implemented by the fanatical Kim Ir Sen should be implemented) (Gallagher, 2005, p. 77). In these conditions an intensive development of the heavy industry was registered, which was energy consuming, although these were overexploited in previous periods. This made the economy unjustifiably greatly dependent on imports. And all this on the background of neglecting the high-tech sector (which was the trend in developed countries), although the country had the resources and the local scientific talent. Insisted was more on the production of weakly competitive production of goods that could be exported only to Third World countries, which represented uncertain markets.

The oil crisis situation has left its mark on the world economy (the global price of oil increased during 1973-1974 from an approximate value of $ 3 / barrel to over $ 12 / barrel, the price fluctuating in the coming years around the level of $ 14 a barrel, and during the second oil shock it increased to a levels above 30 dollars / barrel, occasionally reaching $ 38 a barrel). Right after the first oil shock the world economy suffered, the ones registering a drawback being the developed countries that had important industries based on huge oil consumption. Obviously, the U.S. economy was also influenced . There was even significant inflation and unemployment which induced damage to the dollar. If part of the rise of crude oil was eroded by the relative depreciation of the dollar, the increase in oil prices (which was expressed in U.S. dollars) was still substantial, global prices in the years 1980 and 1981 in real terms were about five times higher than they were in early 1973 (Murgescu, 2010, p. 392).

For Romania, the greatest problem occurred during the second "oil shock", as the first was put behind based on using local resources, which at that time were overexploited. Thus, Romania faced urgent need for resources, raw materials, but this request (particularly the one of energetic resources) was very high throughout the communist bloc. In these conditions on May 19, in 1980, the Prime Minister Ilie Verdet went to Moscow to present an ambitious program to boost trade between the two countries. Romania foresaw the trade to 25 billion rubles for the following five-year period, while the Soviets wanted to settle for only 12.7 billion rubles. Due to major differences, the contract was not agreed on but only a year later, when it reached the amount of 14.4 billion rubles to the possibility of supplementing with 2.5 billion rubles by a separate treaty (it should be noted that both sides were in need of raw material and wanted to export industrial products).

In 1978 Ceausescu visited China and other countries in the region (the People's Democratic Republic of Korea, Vietnam, Laos, India, Cambodia), being very well received. The biggest issues usually arose, as in the case of the Soviet partnership, when it came to economic cooperation. Trade relations with China were quite good: 1.2 billion Swiss francs (the currency used by the two countries for their calculations) in 1979, 1.25 billion in 1980 and 1.18 billion in 1981. The exchange structure was beneficial to the Romanian side, according to the protocol signed in 1982, exports being formed of 41% machinery, 12% industrial goods and 47% raw materials. On the other hand, Chinese exports to

Romanian counted 60% raw materials, 36% food and industrial products and only 4% machinery. But in 1981 Romania had a negative trade balance. Then goods were bought from China worth 200 million Swiss francs over the amount of Romanian exports to China (Burakowski, 2011, p. 270).

Although the country's foreign trade registered a continuous increase during the communist period, Romania did not come to have an export-based economy as there was in the interwar period. Moreover, the domestic politics did not pursue this goal, improving foreign relations was a secondary purpose to serve the industrialization of the national economy. It was this attitude that led the national economy further away from the developed countries because it caused a rupture in the accelerated scientific and technical developments that induced the shortening of cycles for different products and production methods.

2. Post-communist Romania

After 1989, just like the other European communist bloc countries, Romania registered a change in the political regime, but also in the economic and the social system. Obviously this led to profound economic and social transformations, as in fact there were when the communist regime was installed. But certainly, this time, the effects were not as tough. The communist regime was a fully totalitarian one, which flattened the Romanian society and arranged people's lives to the smallest details.

Immediately after the change of the communist regime in 1989 the former communist countries experienced a short and intense period of "extraordinary politics" as Leszek Balcerowicz calls it, a supporter of Poland's transition to democracy. This period is a time when "both leaders and citizens felt a more than normal tendency to think and act in terms of public wellfare" (Balcerowicz, 2000, p. 237). In Romania this period was very short, up to a month. There was a switch from a communist nationalism, in free fall during its final decade, to democracy. Although Romania has started the reconstruction of the economic, political and social system without being indebted to third parties, the country needed consistent western aid as the national economy had to be revived while people's expectations were high because of many frustrations induced by aberrant political and economic decisions made by the communist Romanian authorities.

The actions that took place around mid-June 1990 stunned Western countries. It was said that "Romania has become a strange country" (Cioflâncă, 2000) and its application to be included in the Visegrad group got rejected (this was an organization on cooperation consisting of four Central European countries: the Czech Republic, Poland, Slovakia and Hungary, an association similar to Benelux, the West-European economic association); on February 15, in 1991, in the medieval city of Hungary, Vaclav Havel – the President of Czechoslovakia, Lech Walesa – the Polish President and József Antall – the Prime Minister of Hungary, signed a joint statement assuring their mutual support for political and economic integration – by a very close regional cooperation between them – within the European Union). The refusal was sent directly to the President of Romania, but the PM Petre Roman went uninvited even so, and he was not received. The President of Czechoslovakia, Vaclav Havel, stated that including Romania in the negotiation may have created a difficult situation for them, as it was considered to affect their credibility in the Western structures they wanted to join as soon as possible (this represented, in fact, the renewal of the agreement of 1335 between the kings John of Bohemia, Casimir IIIrd of Poland and Charles Robert of Anjou of the Hungarian Kingdom).

Immediately after the revolution, Romania nurtured the relationship with the Serbian leader, Slobodan Milosevic. Iliescu's first visit abroad as president took place to Serbia. And when the United Nations condemned Serbia on the grounds of violating human rights, Romania tried not to break diplomatic relations. Indeed, on April 5, in 1994, Milosevic officially visited Romania, and the Romanian President stated that relations between the two countries are positive in all respects (Gallagher, 2005, p. 72).

All these were subsequent to April 1991 when Romania was the only state in the Soviet sphere of influence that signed a comprehensive friendship treaty with the Soviets, a treaty which drew a firm line of neo-communism, an approach that seemed inexorable to Moscow. This treaty became obsolete once the Soviet Union collapsed in the autumn of that year.

In February 1991 Romania was given special guest status in the Council of Europe, and in October 1993 was admitted entrance, while the countries of the Visegrad group were already admitted by the time Romania received the status of guest. On admission, UDMR (The Democratic Union of Hungarians in Romania) opposed on the grounds that the country did not register sufficient progress concerning minorities (Hungary was obviously siding the UDMR, but ultimately did not make use of its right of veto). The reserved attitude towards Romania was maintained thereafter, so that by 1997 there were biannual visits of European rapporteurs in the country to assess the state of affairs (Gallagher, 2005, pp. 146-147).

In October 1992 Romania regained the status of favored nation clause of the U.S.A, and November 17, in 1992, Romania signed the EU Association Agreement. These decisions on the approach to the structures designed and built by capitalists led to the improvement of the Romanian democracy: the Romanian Intelligence Service was placed under the control of Parliament, and the independent press was revived and began to expose and fight corruption.

In 1994 when NATO announced the desire to initiate and develop a cooperation program (Partnership for Peace) for including new members, Romania was first to join. This led to a military modernization and to extending civilian control over military management structures to meet the requirements of Western democracies. After the war in Yugoslavia it became clear that Eastern Europe is not to be ignored; at the beginning of 1996 the countries which signed the Warsaw Pact received invitations to join, and Romania started the process in April of that same year. But the new requirements imposed to candidate countries were related to society's democratization, to economic reform, to restructuring the army and to settling disputes with neighboring countries. Analyzing Romania's situation, it was not encouraging at that time. Indeed, the Marxist-Leninist attitude was renounced, but an oligarchic governance set in, the economic reform was slow, problems with neighboring countries were plenty (the bilateral treaties with Hungary, Ukraine and Russia were not concluded) and in these conditions Romania seemed more a beneficiary of security rather than its generator in this part of the continent.

An important issue for the NATO leadership regarding Romania was a major presence and influence of former agents of the Intelligence Service in the political and economic environment (it could be stated that in Romania, unlike in other states – Czechoslovakia, Hungary, Poland – the Soviet influence on the structure was much lower) (Gallagher, 2005, p. 150). But, however, Romania, in addition to Poland, was the only former Communist country that proved to be considered as having an active role in NATO (Gallagher, 2005, p. 132).

In July 1997 it was recommended that six countries, including Romania, to be left out of the accession process (Gallagher, 2005, p. 207), but in December 1997 it was decided that all 11 candidate countries should receive invitations to begin EU accession negotiations, but that a slower pace should be adopted with countries that do not meet membership requirements. In 1998 a member of the European Commission stated that "Romania registered the worst performance in the last year of all candidates for the European Union" (Economist Intelligence Unit, 1998: 18). In order to improve the economic situation of states lagging behind it was decided in the spring of 1998 that they should receive disproportionately large funding from the EU in the hope of rapid catching up with those advancing quickly (Gallagher, 2005, p. 207).

The situation significantly changed between 2000 and 2006. Following the timid reforms promoted in the late 90s, the economy increased again in 2000. Subsequently, the growth pace accelerated substantially reaching an annual average of 5-6%, with the adoption of comprehensive reform programs in the core of which stood the economic restructuring, the administrative and institutional reform and the macroeconomic strengthening. The fresh drive of the reform coincided with the official start of EU accession negotiations in December 1999, which culminated with the signing of the Accession Treaty in 2006 and the entry into the EU as a full member on January 1, 2007. Romania registered important progress in addressing the main challenges of the reform, progress that the observers associated to the EU accession process and the application of the acquis communautaire, which actually anchored the reforms in a comprehensive and transparent framework. Important was also the role of other country's development partners that have helped Romania to meet these challenges.

3. Conclusions

In the early postwar years the restrictions on economic ties with the West followed immediately after the establishment of political and military control of the Soviet Union on Romania, being also favored by the economic difficulties that affected most parts of Europe during those years, while in the '70s and the '80s Ceausescu tried to maintain an upward trend regarding foreign trade, including the one with the West, even after adopting a nationalist and authoritarian style regarding the internal policy. Imports were restricted only after imbalances in external economic relations led to the debt crisis in 1981 and were considered a threat to reduce its absolute authority in the domestic politics. In case of the transition from focusing on the diversification of foreign economic relations, there should be noted the alternation of political and economic decisions in the process of reorientation of the communist regime towards a national-communist line and towards cooperation with the West: after the Soviet troops' withdrawal from Romania in 1958, in 1959 the institutional foundations were set by agreements with Western countries in the pursuit of imports to stimulate Romania's industrial development, and in the following years the decision to build a steel factory in Galati marked the regime's decision to refuse agricultural specialization within the Council for Mutual Economic Assistance (CMEA) and to develop the Romanian heavy industry over the domestic needs; at political level, the new orientation of the regime became visible in 1963-1964, when Romania started to vote differently from the Soviet Union in international bodies and then announced by the declaration in April 1964 the right of each communist party to independently decide its country's policy. Actually, the political and economic mutation happened even before 1965, Ceausescu only continuing and enhancing the political and economic distancing from the Soviet Union and the diversification of international relations.

The prejudice against Romania's economy during the communist regime is reduced. It can be noted that the immediate postwar years were difficult, the system was hypercentralized, that in the 60s and 70s there was an economic growth (although the final effects of social welfare were not fully felt), and that in the 80s Romania entered a period of crisis and relentless economic deprivation that contributed to the collapse of the regime in 1989. We can state that the Ceausescu regime had the following coordinates: nationalism accompanied by anti-Soviet behavior, but also international recognition amid records of economic successes.

After 1989 the authorities failed to draw a clear line for Romania's future. They could not let go of the Russion influence that they were formed under, signing a new agreement on economic and political cooperation with Moscow. But at the same time, they continued flirting with the idea of joining the Western European structures. So, if during the Ceauşescu regime Romania had a less than typical position within the communist bloc, after the fall of the regime it had a differentiated attitude to its western former communist countries which the comparison is more wanted with. These oscillations occurred due to the uncertainty of the government, who acted in fear of losing power, led to the loss of time and failure regarding directing the Romanian society towards the appropriate path to modernization. In the end decisions were taken in accordance with national aspirations. But once the directions of action and the measures to be taken were established, the national authorities proved lack of interest and acted reluctantly, more due to external pressure, which seemed more concerned about Romania's future.

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Arguments for Polycentricity in Romanian Regional Development in the Context of European Union Cohesion Policy

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Abstract: Our study aims at analysing the monocentric/polycentric trends in Romanian regional development and formulating the recommendations regarding public policy for the attenuation of present development disparities. In order to achieve this goal, we used as variables the annual GDP rates of each region, viewed as representations of their development level, for the period of 2008-2013, based on the data supplied by the National Commission of Prognosis (Comisia Naţională de Prognoză). As a result, we observed a regression of growth rates directly influenced by development levels. We draw the following conclusions: there is a potential, in Romania, for reducing the existent development lag among its regional divisions, through the emergence and sustainable development of new growth poles within poorer regions. The solution for the attenuation of present economic disparities is, consequently, a balanced polycentric development at regional level, opposed to a monocentric development. By placing our analysis at a normative level, a balanced territorial development can be achieved by orienting public policies in two directions: the stimulation of economic growth within slower-growing regions and the dispersion of economic growth from more developed regions towards less developed ones, through a national redistribution process. It is important that the principles based on 'the ability to generate income' must prevail over those based on 'income discrepancies'. Our study can constitute itself as a starting point for future research on the role of agglomerations within a possible configuration of a balanced Romanian territorial development.

Keywords: monocentric development; polycentric development; growth poles; integrated area development; spatial equilibrium

JEL Classification: R11; R58

1 Introduction

Romania's EU integration requires the adherence to a redistributive, ambivalent, economic and social model. A model with a social scope, in which market failures is resolved by using public policies. A model provided with a regulation strategy that broadcasts prosperity from center to periphery, using the available structural and cohesion funds. Romania is a cohesion country, along with other EU member states that have regions with a GDP per inhabitant lower than 75% of the community average. This means that all the 8 Romanian development regions are eligible to receive cohesion funds.

Romania's development is characterised by disparities among its 8 development regions. *Regional disparities* (scientific literature operates with the term *disparity*, as well as with the terms *discrepancy* and *regional inequalities*, taking into account the fact that inequalities become disparities when they exceed 30% in amplitude) are a result of imbalanced distribution of natural and human resources, of social, political, demographic and economic differences, as well as a result of the way they interact at territorial level, taking into account their historical development. In addition to that, the managerial

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capacity of allocating EU Structural Funds effectively had an important impact in the configuration of the development hierarchy.

In addition to inter-regional disparities, Romania also confronts with important disproportions within its actual regions, where counties that are mainly agricultural coexist with more developed industrial ones. This phenomenon derives from the reorganisation of economic activities, which, especially in mono-industrial areas, determined an increased unemployment rate. The mosaic-like structure of economic development at sub-regional level characterises all the 8 Romanian regions.

Up until recently, the dominant view in regional development literature supported an even allotment of the effects of economic growth towards atomised populations (cities, companies or people) within the same region. However, the new economic geography acknowledged the modification of atomised economic areas as an important economic actor (Cojanu et al., 2009).

Supposing that urban and/or industrial agglomerations count as poles of economic growth, constituting themselves as centres of adjacent regions, we argue in favour of a balanced polycentric development at territorial level, opposed to a monocentric one, in which only one or a few regions (cities) constitute national growth poles. Moreover, the Romanian regional strategy should focus more on measures designed to sustain *integrated area development* and less on nearing a *spatial equilibrium* regarding economic growth. A series of European studies (Rodriguez-Pose, 1994; Martin, Ron and Peter Sunley, 1996; Vickerman et al., 1999) conclude that the configuration of an economic growth plan does not necessarily lead towards a consolidation of the competitive functionality of an area.

Our study evaluates the character of Romania's regional development for the period of 2008-2013. A similar analysis (Marinaş, M.C. & Socol A.G, 2009), focused on the period of 2005-2007 at level NUTS III (regarding Romanian counties), showed an attenuation of the differences in growth between counties and between regions NUTS II. We used as variables the annual GDP growth rates of each region, viewed as representations of their development level, based on the data supplied by the National Commission of Prognosis (Comisia Naţională de Prognoză). The method employed is the graphical regression analysis of GDP growth rates.

2 The Regression Analysis of Regional GDP Growth Rates

Gross domestic product (GDP) is one of the most representative indicators of development level and regional competitiveness. Regional GDP measures the economic activity generated by the production of new goods and services, within a certain region. The GDP growth rate shows a dynamic image of the economic evolution of a given region. It measures the real GDP growth rate of a region for a period of 1 year. High values of GDP growth rates are associated with good regional economic performance. The growth rate of regional GDP is an indicator which allows a relatively clear comparison between the economic dynamism of several regions. By also taking into consideration the demographic elements, the GDP growth rate per inhabitant measures the life standards within a region.

The graphical regression analysis of annual GDP growth rates in the 8 Romanian NUTS II regions for the period of 2008-2013, based on the medium-term prognosis used in the 2011 budget set, is shown in Figure 1. The highest slope of the regression curve shows the tendency towards a monocentric development. Thus, more developed regions will register superior growth rates, the large cities found within their area being considered *national growth poles*. The reduction of the regression slope demonstrates the *possible emergence of new growth poles*, even in underdeveloped regions. Concretely, the figure shows that in the year 2008, Romania followed a monocentric development trend, mainly due to the growth potential of Bucharest-Ilfov region, with a GDP growth rate of 18.2%. Compared with the national average numbers, this region had much higher levels of gross added value in industry (10.6% compared with 1.9%), services (14.9% compared with 5.4%) and constructions (51.1% compared with 26.2%). Therefore, in 2008, the national economic growth was 'pushed' forward by only one region (Bucharest-Ilfov), slightly 'helped' by the Southern and South-Eastern regions, with GDP growth rates of 9.5% and 9.2%, respectively.

Starting with the year 2009, a tendency towards polycentric development can be observed, at the level of all the 8 development regions. Graphically, beginning with 2009 the distribution line slope starts to decrease, by gradually becoming insignificant in 2013 (according to estimated data). As a matter of fact, at the level of all 8 regions, throughout the mentioned interval, the GDP growth rate gets near the national average value.

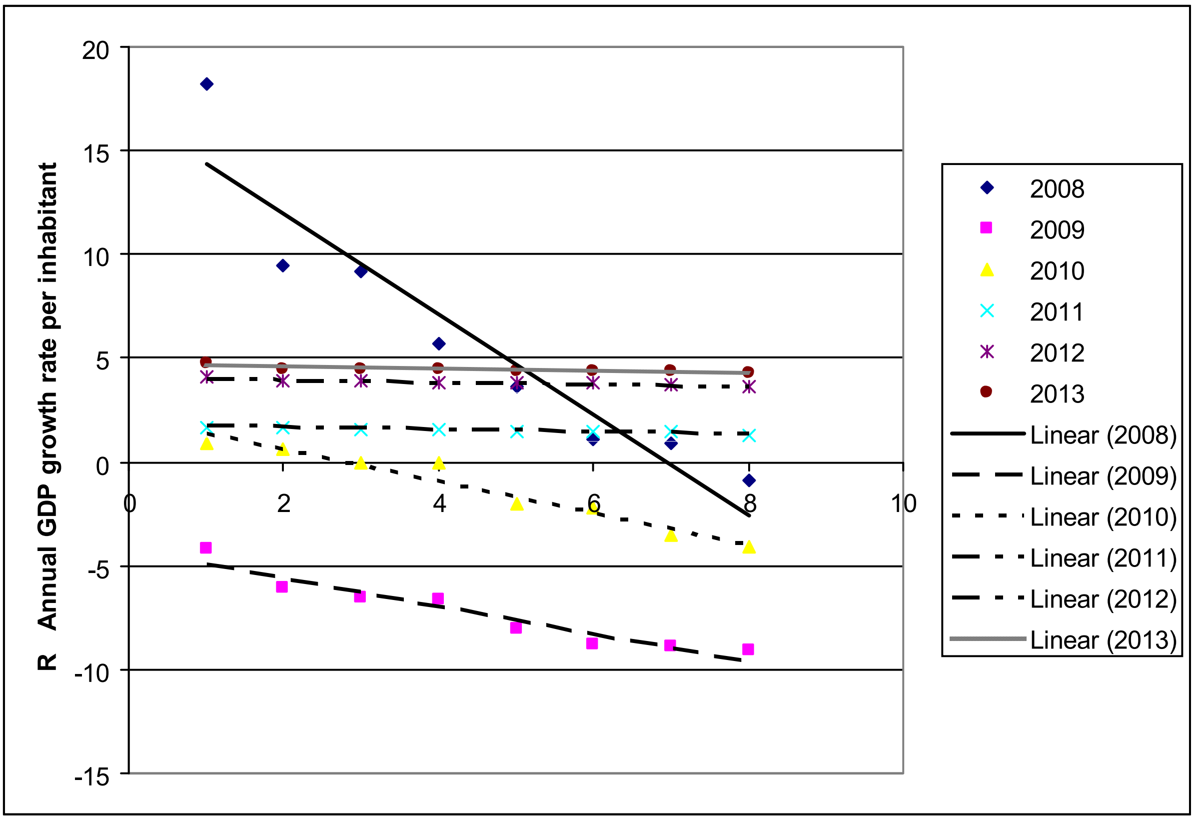

Figure 1. Regional monocentric/polycentric development trend

Source: Adaptation of the data supplied by the National Commission of Prognosis

This new configuration of regional development, which also takes into account the current persistence of disparities, shows that in our country there is potential for the emergence of new growth poles in less developed regions, so that we could benefit from a polycentric development. Consequently, the more prosperous regions will reduce their relative importance. The attenuation of regional disparities is still unachievable. However, the analysed evolution trends suggest that Romania's polycentric development constitutes a condition for their attenuation, by allowing poorer regions to record higher rates of economic growth.

3 Towards a Regional Polycentric Development of Romania

By placing our analysis at a normative level, the solution for the attenuation of present development disparities between Romanian regions, is, thus, the emergence of new growth poles in poorer areas. This will generate a polycentric development, in spatial equilibrium, which will reduce economic differences. In this way, the cohesion and competitiveness objectives stipulated in the EU official documents and recommended for the sustainable development of the country, will be attained.

A balanced territorial development can be achieved by orienting public policies in two directions. The first one deals with the stimulation of economic growth within slower-growing regions. Although this was the main objective assumed by our country in planning its strategy to attract European structural funds, the regional politics option is compromised by the lack of efficiency in fund absorption. To prevent that Romania becomes an EU peripheral zone, the improvement of our managerial strategy in attracting EU funding is necessary, especially in the field of higher qualification of work force, development of competitive production technologies and environment protection. The second one deals with the dispersion of economic growth from more developed regions towards less developed ones, through a national redistribution process. This direction confronts itself with the fact that resources tend to orientate towards those areas that ensure their maximisation. Thus, we must elaborate strategies to transform local and regional abilities (for example, the creation of a self-driven process of positive cumulative causations between industries), to ensure proper conditions for market competitiveness and to use the local abilities in the creation of new businesses. In both cases, in the establishment of eligibility and transfer rules within regional politics programmes, the principles based on 'the ability to generate income' must prevail over those based on 'income discrepancies'.

4 Final Remarks

The regression analysis of regional GDP growth rates demonstrates that, in Romania, there is potential for the emergence of new growth poles in less developed regions, so that we could benefit from a polycentric development. This is why a relevant model of spatial organisation should overpass the 'cliché' of disparities formed between the centre and periphery and give credit to less developed locations, by investing in their ability to generate economic growth. Moreover, we advance the idea that policies regarding regional polycentric development should have as strong nuclei not urban centres, but competitive industrial agglomerations. This is the reason why we suggest that a further research direction should focus on the role of urban and industrial Romanian agglomerations in the configuration of a balanced territorial development. The disparities in Romania's spatial development are also confirmed by empirical analyses at any territorial level, and their attenuation is far from being achieved. However, the analysed evolution trends suggest that Romania's polycentric development constitutes a condition for their attenuation, by allowing poorer regions to record higher rates of economic growth.

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REALITIES AND PERSPECTIVES

A New Risk Strategy for European Cooperative Banks in Contemporary Economic Crisis

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Abstract: The quality of the banking management and of the risk management represents the essential steps for the insurance, the security and the stability of each bank individually. In this article, the authors intends to underline the main aspects regarding the risk in sustainable development of European credit institutions and the theoretical and practical aspects that can contribute to increasing performance management in credit institutions. In times of crisis, risk management in the banking system has a greater importance than in the normal economic times. The 2011 was a year in which Romania has been hit by the repercussions of the international economic crisis.

Keywords: risk management; risk administration; compound risk; crisis management team; communication during crisis.

JEL classification: G01; G21; G23; G32

1 Introduction

Risk management is an important component of the strategy of a credit institution to obtain a desired level of profit while maintaining an acceptable risk exposure. In the domain of risk management a credit institution guides itself by the operational legal provisions, resolutions, instructions and regulations of the National Bank of Romania, standards, manuals, circulars, instructions, regulations and by its own strategic objectives and rules.

Given the importance and complexity of risk management, in this process are involved all the structures of a credit institution from the Annual General Meeting to each business division.

Risk management in 2011 was made part of the general objectives, so that levels of activity to be mutually supported. This approach allows the credit institution to define and implement a risk management strategy that starts from the top and it is integrated in its routine activities and operations. The management personnel, regardless of its hierarchical level, will manage the activity on principles of risk efficiency. Moreover, the staff as a whole will be trained to be aware of the importance of risk management in achieving their own objectives.

One of the main objectives of the risk management process for 2012-2014 is to ensure a steady flow, with a high quality and with increasing trends of the net revenue even while the international

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economic crisis is acutely manifested nationally. This objective will be achieved by ensuring optimal combination between the assets, the liabilities and the financial risks.

2 Credit Risk Strategy and that of Associated Risks

In terms of economics, risk is defined by three main activities, namely:

- ***the analysis activity***, which requires accurate estimation of risk based on customer's initial status parameters and of the transaction for which funding is needed;
- ***the risk prevention activity*** to diminish or even remove the effects;
- ***the ownership of costs activity and potential loss diminish*** generated by risks.

Credit risk strategy **objectives and the associated risks** are:

- ➢ increase in loan portfolio quality of the credit institution by monitoring the following indicators:
  - the importance of "overdue" credits and that of "doubtful" credits in total loan portfolio (gross value) not to exceed 2%;
  - the importance of "overdue" credits and that of "doubtful" credits in total equity (gross value) not to exceed 5%;
  - the importance of classified credits into the "doubtful" and "loss" categories (gross value) in total loan portfolio not to exceed 5%.
- ➢ maintaining a net interest margin percentage resulting from dividing the active average interest rate to the liabilities average interest rate of minimum 1,5.

For **the credit risk strategy**, the credit institution seeks the review of lending requirements whenever is needed by internal and external regulations and through which is to be studied:

- analysis of used terms;
- analysis of approval and granting of the credit criteria;
- analysis of credit guarantee policy and of the evaluation practices of securities;
- diversification of loan portfolio by products specific to every type of customer;
- updating of rules and regulations relating to lending activity;
- review the rules and procedures for managing non-performing loans;
- developing and improving IT applications and communication system for the provision of credit and interest overdue reports;
- pursuing unpaid overdue loans and interests by using different methods (negotiating with the client, the rehabilitation credit and the prosecution, enforcement);
- offering credit insurance so that the risk is transferred partially or entirely from the creditor;
- compel the applicants, co-payers and guarantors to engage in credit and other payment obligations arising from all these with all their movable or real estate property.

3 Market Risk Strategy

Interest rate risk is determined and monitored to calculate the potential adverse impact on net interest income, as a result of improper correlation of interest rates on attracted and borrowed sources with interest rates on investments made and the potential losses in net assets.

The levels and dynamics of the interest rate are the result of simultaneous action, converging and contradictory, of several general and specific factors with direct or indirect influences such as: the profit rate, the ratio of demand and credit supply on the market, the risk for loan provider, the duration of the credit, purchase price for attracted sources, volume of owned sources which are not invested in fixed assets, level of inflation, monetary policy, etc.

- **Objectives of the strategy:**
- Minimize interest rate risk depending on the ratio of interest bearing assets and interest bearing liabilities, taking care that its value is close to 1.
- **Market risk strategy includes:**

To achieve the objectives of market risk, a credit institution's strategy includes the following provisions:

- exposure to interest rate risk will be maintained at an appropriate level to the nature and complexity of bank activities within the limits set by its administration;
- implementation of management and supervision procedures of the risk to obtain a large and stable over time interest rate margin, and the profitability and capital value does not change significantly as a result of unexpected fluctuations of interest rates;
- diversification of banking products and commissions related to the core business in order to reduce interest rate risk for their abatement;
- regular review of interest rates on bank’s assets and liabilities operations based on analysis and forecasts made by the Administration of assets and liabilities committee on the basis of information on bank market interest rates;
- achieve performance in bank marketing activities to ensure continuous communication between the credit institution and the customer, to facilitate the exchange of messages, information and ideas to achieve the interests of each party.

4. Liquidity Risk Strategy

The main task of bank management is to estimate and to fully cover the optimum liquidity needs. Achieving and maintaining optimum liquidity is a managing requirement whose value is supported only by practice, taking into account the many implications of liquidity risk arising from fluctuations both on profitability and other risks related to the credit institution's activity.

The **objective of a credit institution** for its activity on liquidity risk is represented by maintaining an adequate liquidity activity in terms of ensuring the necessary resources to support the provisions of the budget (business plan) and scheduled loan portfolio growth.

To achieve the **objective of liquidity risk**, credit institution's strategy includes the following provisions:

- the growth of attracted sources of non-bank customers and introduction of new savings products with high stability level on long and average periods, benefiting from competitive rates and adequate promotion;
- the implementation of the credit institution of a value of greater liquidity than 1 on each maturity band;

- the immediate liquidity indicator made by the credit institution must be higher than 20%;
- maintaining stable relations with suppliers and financing sources and keeping an active position on the interbank market;

5 Operational Risk Strategy

In the category of operational risk factors included:

- the preparation, number of employees and safety measures taken at each workplace;
- the products and the banking services, operating practices adopted or their practice error;
- the structure of the internal procedures used or the faulty application of provisions;
- the weaknesses in computer and communications infrastructure;
- disruptions in activity and system failures;
- internal and external fraud;
- improper application of legal and contractual provisions.

Operational risk management is carried out continuously in the credit institution taking into account the risk factors.

For proper operational risk management by the credit institution, **the objectives are**:

- ensure work continuity regardless of the type of disruptive event;
- improve operational efficiency and continual internal control;
- improve the quality of customer services;
- increased training of employees;
- effective management of information and human resources in the credit institution;
- the credit institution must have at all times its own funds to cover operational risk they are exposed to.

To achieve the objectives for the institution's **operational risk the strategy** of the credit institution includes:

- regular review of management processes and operational risk measurement;
- developing a technology based on web / intranet technology to collect operational risk reports throughout the bank;
- establishing rigorous operational and internal control cultures, including separation of duties and responsibilities specifications for every job.

6 Reputational Risk Strategy

Damaging reputational risk is caused by the credit institution's image as a result of negative publicity made, business practices and / or individuals associated with them, or the management staff, regardless of its conformity with the reality, producing a loss of confidence in the integrity of the bank from clients, which leads to the failure in reaching the expected profits. The potential impact of reputational risk to the activity of the credit institution may consist of:

- image deterioration or loss of customer confidence, third-party counterparty banks, media and so on in the bank;
- production of direct or indirect financial loss, measurable or not;
- failure to launch new products / new services;
- failure in reaching estimated profits and / or reduction of the market share.

For the proper management of reputational risk by a credit institution, **the objectives** are:

- improve the image and avoid direct or indirect damage to the image and reputation;

- avoid disclosure of secret or confidential information and use of information by their staff to obtain personal benefits or denigrating the credit institution.

To achieve the objectives for the institution's operational risk **the strategy** of the credit institution includes:

- defining image of the bank attributes and methods of image enhancement;
- regular review of policies and procedures to know more about clients with the purpose of avoiding entering into business relations with customers who have a history of fraudulent transactions involved in money laundering, major incidents of pay, clients who don't pay on time, or involved in illegal activities;
- IT application development process to improve the identification of unusual and / or suspicious transactions;
- preparation of front-office staff to advise clients in making informed decisions, correct and consistent with their needs regarding the purchase or use of banking products and services offered by a credit institutions;
- developing a working procedure for receiving complaints from customers and solving them;
- preparation of the staff code of conduct from the credit institution.

7 Conclusions

An efficient banking strategy should include both software and banking risk management procedures that aim, in fact at minimizing the likelihood of such risks and potential exposure of the bank, because the main objective of these policies is to minimize losses or additional expenses incurred by the bank and the central objective of obtaining a banking activity is higher profit for shareholders.

In Romania, all banks have faced financial instability factors in a general context of instability caused by the transition process. The transition meant for the Romanian banks change the statutes (operating as joint stock companies), operating in the legal framework (law allowing a wide range of engaging in financial transactions), competition from other financial institutions (investment funds) and other banks (Romanian, created after 1990 and foreign) direct refinancing reduction by the central bank, continual change of prudential rules by BNR and the deterioration of the financial situation of most major customers. In these circumstances, the management of banks, implementing appropriate risk management policies becomes a necessity, and also the assimilation by the employees of new techniques and tools for risk management.

All credit institutions must improve their understanding and practice of banking risk management to be able to successfully manage different product lines. If the bank risk management and global management system are effective, then the credit institution will be successful. Credit institutions can successfully manage the banking risks if they recognize the strategic role of risks, if they use the analysis and management paradigm to increase efficiency.

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Diagnosis Related Groups System - Managerial Tool for Estimating the Cost of Hospital Services (Empirical Study)

Carmen-Mihaela Crețu[1], Victoria Gheonea[2]

Abstract: Public health services in Romania are in a complex and continuous process of reform, a major priority of government. In the light of future trends of development of health care, we can say that healthcare is becoming more and more a "market" operating on the principle of supply and demand. The patient becomes a consumer; he is interested in health care and wants to be adept at maintaining and improving his health. Therefore, the Romanian health sector must intensify efforts to develop management because success and even its existence depend exclusively on an appropriate management system that continuously improves to the needs of the patient (customer) and to the market economy. Thus, we considered it necessary for costing approach in the health sector in Romania due to the high complexity of health services and the high consumption of resources.

Key words: managerial accounting; public accounting; costs; health economics; financing

JEL Classification: M41; H83; I18

1. Introduction

Hospitals in Romania are currently facing a problem of low financing services, which no longer keep pace with medical technology, demand for services growing and more diverse, need for salary increases in public sector and the need to align to European standards for medical assistance. Given that the national level has not yet performed a study of hospital care costs, indicating the need for funding, cannot say with certainty that hospitals are underfunded or not.

On the other hand, neither hospital providers have developed a well-documented offer of services, defining health care packages, which could help financier and patients in the purchase of services. Bridge between the two poles (supplier and buyer of services) can be achieved by better defining the types of services, manner and quality standards to which they should be provided and the appropriate level of funding. If into a private health system, these elements come by itself, because the service is defined first, then how much delivery, and then sets its price, in the public system, the principle of universality and gratuity access to medical services makes this approach to come much later, or never come (Haraga&Ţurlea, 2009).

The purpose of our study is the one of the main concerns in lately of the hospital managers, namely: *to demonstrate that the Romanian public system of hospital services must estimate the economic efficiency through a coherent system of costing*. The approach it is not unrealistic in the context of the emergence of profitable health care systems, so economically efficient, even if they are the majority of hospital services under private management.

By appeal to the particularities of the health system in Romania, we present model costing hospital services currently used in hospitals, based on the Diagnosis Related Groups System (DRGs).

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2. Diagnosis Related Groups System (DRGs)

The Diagnosis Related Groups is a classification scheme for patients based on diagnosis. This system is similar to International Classification of Diseases (ICD) in which diagnoses are classified into classes and subclasses. In contrast, the DRG system is used an additional criterion for classification, ie *the cost of consumed resources for patient care*. Thus, through the DRG system, patients may be simultaneously classified as pathology and cost of care, which provides the ability to associate types of patients with hospital costs incurred. For patients classified in the same group of diagnoses, procedures performed and costs are similar.

DRGs are assigned by an application "grouper"[1] based on the characteristics of each discharged patient: age, sex, duration of hospitalization, primary and secondary diagnoses, procedures, status at discharge and birth weight (for neonates), and according to them, the patients are classified in a distinct category (a group of diagnoses) (www.drg.ro).

The DRG system is conceptually oriented in **the standard cost**. There are many papers of specialty literature describing the process of estimating the average cost of medical services. However, very little has been written about the estimation of standard health care costs, by "standard" meaning those costs which would consume resources when treating patients in an efficient manner by a well managed team of clinicians, and taking account the existing realities, including resource constraints which may limit providing the best care. Knowing standard cost actually means knowing the "expected" cost of the supplier for a patient when he falls into a common and agreed treatment scheme (Haraga&Ţurlea, 2009).

DRG system moves the paradigm functioning of a hospital from the resources and the process conducted to the results of activities, reflected in hospital patients. The system provides a "picture" of the hospital results. Diagnostic groups are designed in the light of standardization of hospital results (results expressed in terms of patients discharged, "homogenized" within these groups) and go in a direction opposite to the aphorism "*there are no diseases but sick people*."

3. How to fund hospitals based on DRG system?

For each patient discharged and sent in a diagnostic group was established a charge which will be paid to the hospital, regardless of the resources consumed by the patient. From this point we can say that it intervenes on resulted "photo" of hospital, because hospitals will changes activity to achieve a "photo" to bring them more income.

Specifically, the DRG is a complex mechanism of financing of hospitals based on what actually happens in the hospital. It establishes a method of reporting. Suppose it performed surgery "A" and maneuver medical "B"; the hospital will report, and, depending on the reporting, resulting severity and complexity of a case. Each patient is more or less severe. Number of patients is a criterion for payment. Gravity of the case is another criterion for payment. And multiplied these two, gives the budget, i.e. funding.

DRG system is the best tool for evaluating the results of a hospital, which is why it was taken over and adapted to be used to finance hospitals. Many doctors and hospital managers in the Romanian health system have criticized and still criticize the introduction of the DRG system in Romania. Most of them do not know in detail the DRG system, which are the alternatives to it, the advantages and disadvantages. They do not know the direction in which the DRG started in Romania, how it has come and what's left from this path, how it will look after completion of the reform system.

[1] Grouper - software that allows automatic allocation of a patient in a DRG based on data that characterize each discharged case.

It is considered that the DRG is responsible for repeated financial crises of the hospitals, although DRG does not bring more money to Romanian health system, but no money removing from there, and just divide the amounts available, whether many or few they are.

4. SWOT analysis

The SWOT analysis is a strategic planning method aimed at evaluating the ***S***trengths, ***W***eaknesses, ***O***pportunities and ***T***hreats underlying a particular project/strategy/objective. Each management tool for estimating the cost has strengths and weaknesses, but their effect may vary depending on the specific sector. On the one hand DRG has been criticized as not adequately accounting for severity of illness, but on the other, paying by DRGs improves technical efficiency and productivity within hospitals.

Internal Evaluation

Strengths	Weaknesses
• It is a patient classification system based on discharge diagnosis; within each diagnostic group are included patients with similar pathology and treatment costs, achieving a better match between services provided to patients and hospital resources used. • It examines the characteristics of each patient discharged and, according to them, patients are classified in a distinct diagnoses group, DRGs provides a more transparent in terms of hospital activity. The key word in the DRG system is *discharged patient* (case solved). • It starts from the hospital results, expressed in number and type of patients effectively treated in hospital and not from hospital structures (number of beds, staff). • It is a useful tool in increasing hospital efficiency (by identifying the resources required for each type of patient), improving the quality of services provided (by assessing the quality and definition of patterns of practice), in hospital activity and structure modeling (staff, departments) and in achieving a results-based management rather than resources or processes. • Allow fair comparison between hospitals (although not the same type), departments or physicians. • Through DRGs, hospitals that will have costs for a specific DRG, lower than tariff established in that category, will earn resources to that category of patients and those with higher costs than tariff established for a specific DRG will lose resources in that category of patients. • It is based on the principle "*money follows the*	• Lack of self-management - the question arises whether hospital managers will have the strength and motivation to intervene in order to increase efficiency, in terms of achieving a "photo" of the results, it is necessary that hospital management can have sufficient autonomy to intervene in such modeling services to increase efficiency and quality of healthcare provided. • Uncertainty on the responsibility of hospital management - the question is to whom will go the responsibility, if the measures are unpopular (but not at the expense of patients) for increasing the efficiency of hospital, or if it is decided reorganization of departments which produce losses (but community are required). • Uncertainty in the management of profit / loss in the hospital - must be regulated how to manage the profit (surplus) generated by an increase in efficiency and how to manage the hospitals with loss (deficit). • Affecting the quality of services provided - some hospitals tend to have short term benefits and thus to sacrificing the quality of services provided for increase efficiency; in this way, unless DRGs monitors quality of service can be reached at extreme that "*you will die in the hospital, but you will die more efficiently*".

Strengths	Weaknesses
patient" - the basic principle of health insurance. • Allows hospital to clearly highlight the types of patients and resources attracted to them, ie the hospital is able to know the types of patients for whom lose resources (and to intervene in ongoing processes to reduce costs) and patients for whom have financial benefit (and try to attract as many patients of this type). Hospitals are stimulated to keep costs at a lower price for each type of patient, in order to save resources and use them for different purposes for the benefit of patients. The method allows hospitals to clearly outline the types of patients and resources attracted for them, and through comparison with the costs required, it generates the framework for the greatest possible efficiency (savings are kept in the hospital). • Implies transparency in the use of resources - financing is "on sight" and is known by everyone (patients, hospitals, home insurance, ministry, unions). • Shows weaknesses of previous methods of funding, per day of hospitalization, which takes into account the number and complexity of cases, but also the number of days in hospital - hospitals were encouraged to hospitalized milder cases in departments with higher tariffs and keep patients as many days in these departments. • Funding is not differentiated by type hospital, but according to complexity of cases, so that hospitals will not search for change permanently the structure and name in order to attract more money, but will get more just for more complex cases. • Through DRG, at the same hospital for a patient, for example, with myocardial infarction will be pay more than for one with hypertension, even where the two patients stay in hospital the same number of days. • The hospital is stimulated to treat patients faster and in the best conditions because tariff received depends on the patient (diagnosis) and not by the number of days of hospitalization. • Lead to a more objective allocation of money between hospitals (if a hospital has few patients or has no patients with severe disease, will have reduced funding). • Data reported by DRG system allow an assessment of clinical activity of hospital (at the	

Strengths	Weaknesses
level of department and even at the doctor).	

External Evaluation

Opportunities	Threats
• At central level, through this system there is a transparency of hospital resource use (which is over 60% of total health funds), which leads to a better use of resources and reduce the potential for corruption in the process of allocating funds. • DRG allows the global assessment of hospital activity in a geographical area or a specific area. Thus, information about patients, collected from hospitals, underlying the hospital activity reports, can be used to assess the accessibility and appropriateness of services provided (for example, can generate reports about the number and type of patients who did not have suffered surgery, although were hospitalized in surgical departments), to compare departments or hospitals, concerning the average length of stay by type of patients, to analyze the existence of suppliers in terms of services provided. For example, university clinics with very simple pathology, or pathology and procedures performed in inadequate hospitals. In this way, decisions can be made for better access of patients to hospitals. • DRG helps modeling hospitals by type of patient charges, based on the idea that "*you have what you pay*". Thus, it can intervene when setting tariffs to stimulate supply of certain services and to decrease providing other services. For example, you will pay less for a surgery that can be provided in excess by hospitals, only to raise funds, even if it was not required to be made to the patient.	• Legislative and financial instability. • Existence or emergence of other hospitals on the health services market - potential health service providers. • Policy of the National Health Insurance House (NHIH) - by which hospital budgets are set at centralized way, without taking into account the actual achievements of hospitals and the established tariff, has undermined their equalization process and increased the inequity in funding. There were counties in which NHIH grossly underestimated the amount realized, and in other districts, hospitals have had big budgets and some of them have failed to cover the services through budget allocations. Another obstacle to the smooth functioning of hospital funding has been NHIH allocation of a very small budget for hospital services, so hospitals have been forced to sign contracts to 70-80% of the number of discharges from the previous year. With these policies, NHIH undermines the functioning of DRG, and managers of hospitals who do not know these details better, blame the DRG method for organizational and financial problems in the system. Actually it comes to two main criteria of a financing system: *sustainability* and *equity*. How should a system to be ideal? From the perspective of the financier, a better method of financing must be sustainable (which does not really succeeded in Romania in recent years, neither in hospitals, neither to drugs), fair for both providers and for patients (the greatest deficiency of the Romanian health system is almost complete lack of equity), to motivate for quality services and be efficient. Inequity is inherited from the past, and shall be take steps to eliminate them but on the other hand NHIH, by its policy and measures, hinder this process. And sustainability is not ensured, some of the issues above arising from this. On closer analysis we see that is a contradiction between DRG funding technique and financing hospitals with budgets semi-decentralized.

5. Practice use of DRG method

It is said that the DRG-based financing system is a type of "*money follows the patient*" - that hospitals which have many patients with complex pathology will receive more resources and those with fewer patients will have fewer resources. Thus, the allocation of financial resources is based on the results of the hospital and less its structure. From reverse to this principle resulting in practice a number of issues frequently encountered that prevents objective allocation of resources to hospitals:

- *Incorrectness of tariffs per DRG* - in this sense it is necessary that DRG tariffs to cover costs largely for different types of patients; in addition, the quality of services must be evaluated, but very expensive services should be clearly defined. How DRG does not directly assess the quality of hospital services and it just analyzing the number and type of patients discharged, can hide big differences in quality of services provided to patients of the same type, and thus resulting tariffs unrelated to the costs allocated to case;

- *Reporting false or* altered - also experience shows that, when known exactly the types of patients receiving better funding, hospitals will try to "arrange" the data reported to benefit for "more" patients (false reports) or "more complicated" patients (modified reports). This phenomenon is commonly found in systems using DRGs to finance and is called "*DRG creep*" and can generate even fraud by reporting data for non-existent patients, by readmission of patients, by "complication" the patient. DRG creep is a well-recognized means of boosting hospital income, by obtaining more reimbursement than would otherwise be due (the reclassification of patients to more profitable categories);

- *Choice of prospective or retrospective* payment - through retrospective system should be considered all the weaknesses of a model of payment per patient, the most important being the tendency to admit as many patients and, if possible, of those for which funding is higher; through prospective system is induced rather a selection of cases, ie those consume less resources, for compliance in the budget negotiated with the Health Insurance House (HIH);

- *DRG is a financing method of output type*, ie are funded the outputs, achievements of hospital. In the case of DRG, discharged patient means output. As the complexity of each case discharged differs, the same, the cost of treatment varies. For this reason, it is important that funding also take into account to the resources consumed during treatment. It is a matter for specialists and authorities, which must find a method of funding to be corrected, but also simple to implement and manage.

As long as the DRG system is used in real mode, with data really performed by hospitals, it is really *a management tool to estimate and control costs of hospital services* (Table 3). In practice of the health sector in Romania, DRG system is used only as *a method of financing hospitals* (Table 2), because it uses standard data, imperative imposed by legislation, obviously for reasons of saving all extremely limited resources, with serious consequences for the Romanian health system, highly publicized and well-known.

DRGs are not used solely for payment purposes. Many hospitals, even if they are not reimbursed on a DRG basis, will use a DRG grouper for budgeting, payment evaluation and to conduct hospital utilization review and quality assurance activities to support their operations (www.iha.org).

For these reasons we used the DRG method from both perspectives through a calculation system on medical departments in the City Hospital Targu Bujor Galati, a system that allows quantification of economic efficiency and highlighting the performance achieved by each department taken in the analysis.

To understand the specific terms for hospitals and DRG system, we will do the following comments (www.drg.ro):

- *Number of cases contracted with HIH:* number of patients (cases discharged) which HIH buys and pays them to the hospital. *Number of cases discharged and validated DRG:* the effective number of patients treated and discharged from hospital, cases were validated by the National School of Public Health, Management and Development in Health Bucharest (SNSPMPDSB) - the body that check, validate and quantify in DRG system all cases discharged in public hospitals in Romania. Validated results are transmitted by SNSPMPD to HIH for settlement to the hospitals (www.snspms.ro).

- *The complexity of the cases (Case-mix):* types of patients treated in a hospital, depending on diagnosis and severity. *Case-Mix Index (CMI)* - index of complexity of cases: number (without unit) expressing the hospital resources, in accordance with patients. For a hospital: CMI = Total number of weighted cases ÷ Total number of cases solved. CMI is the measurement of the average severity of illness of patients treated by a hospital. Basically, CMI helps determine the amount assigned to a diagnosis related group (DRG).

- *CMI contracted with HIH:* index of complexity of cases settled (imposed) annually to each hospital by the Framework Agreement on the conditions of the medical assistance provision within the social health insurance system. *CMI achieved:* index of complexity of cases effective achieved for patients discharged from hospital, CMI validated by SNSPMPDSB.

- *Discharged cases (solved cases):* all cases discharged from hospital, regardless of the type of discharge (discharged, discharged on request, transfer, deceased).

- *Normal cases:* discharged cases, classified in the same DRG, with similar duration of hospitalization of statistically.

- *Extreme cases (such as duration of hospitalization) - "outliers":* discharged cases classified in the same DRG with very different durations of hospitalization than that of normal cases: "low outliers" and "high outliers". *Coefficient K of extreme cases:* a coefficient reflecting the financial impact of "outliers" in the hospital. This coefficient is calculated quarterly by SNSPMPDSB based on discharged cases reported and validated by each hospital.

- *Weighted cases:* "virtual" cases, results by adjusting the discharged cases, depending on complexity. For a hospital: Cases weighted = Number of cases resolved x CMI. *Rate per Weighted Case (RWC):* reimbursement value for the weighted case at the level of hospital. The value of rate per weighted case is fixed for each hospital separately and is set annually by the Framework Agreement on the conditions of the medical assistance provision within the social health insurance system. *Cost per Weighted Case:* a reference value that reflects the cost of a weighted case. For a hospital: Cost per case weighted = Budget for acute cases ÷ Total number of weighted cases.

Evaluating the economic efficiency of the hospital is impossible in the absence of methods to quantify the economic efficiency of the current system of hospital services. The approach will be used only to study the economic efficiency of hospital services reported in the DRG system. Thus, using data from the City Hospital Targu Bujor Galati, through the application DRG, will be assessing the total economic efficiency of the hospital, as the sum of subsystems that provide hospital services (medical departments).

Table 1 Indicators achieved and actual expenditure in 2010

Indicators		HIH contracted	Hospital effectively achieved
Number of cases discharged		2,790 patients	4,195 patients
Number of readmitted and transferred cases		0 patients	40 patients
Case-Mix Index (CMI)	January-March	0.6015	0.6793
	April-December	0.6417	0.7426
Rate per Weighted Case (RWC)	January-March	1,222 lei	1,222 lei
	April-December	1,390 lei	1,390 lei
Coefficient of extreme cases (K)	January-March	1.0000	0.9978
	April-December	1.0000	0.9865
The amount of cases		2,327,096 lei	3,954,897 lei

Actual expenditures	Lei
Total actual expenditures of financing sources	3,918,462
1. Health actions financed from state budget	122,827
2. Capital expenditure	1,017,187
3. Costs for medical services, of which:	2,778,448
a) Direct Costs	2,351,775
• Identifiable per patient	232,890
- medicines	113,734
- sanitary materials	29,786
- laboratory reagents	26,940
- materials laboratory	10,258
- food for patients	52,172
• Unidentifiable per patient	2,118,885
- staff costs	2,118,885
b) Indirect Costs	425,739
- office supplies	10,120
- cleaning materials	5,923
- lighting, heating and motive power	141,526
- water, sewerage and sanitation	19,897
- fuels and lubricants	15,300
- parts medical equipment	2,671
- transport patients	2,865
- post, telecommunications, internet	16,309
- functional materials and services	110,659
- current repairs	55,549
- disinfectants	6,507
- linen and bedding	2,522
- inventory items	3,628
- internal displacements	423
- books and publications	206
- consulting and expertise	29,740
- professional training	1,066
- advertising and publicity	1,457
- other expenditure	305

Table 2 DRG system as a method of financing

Period	Medical Departments	Number of cases contracted with HIH	CMI contracted with HIH	Number of weighted cases	Rate per weighted case (lei)	Coefficient K of extreme cases	Amount financed by HIH (lei)
1		2	3	4=2x3	5	6	7=4x5x6
January-March	General Surgery	234	0,6015	141	1,222	1.0000	171,998
	Internal	279	0,6015	168	1,222	1.0000	205,074
	Neonatology	51	0,6015	31	1,222	1.0000	37,487
	Obstetrics	234	0,6015	141	1,222	1.0000	171,998
	Pediatrics	231	0,6015	139	1,222	1.0000	169,793
	Total period	1,029	0,6015	619	1,222	1.0000	756,349
April-December	General Surgery	387	0,6417	248	1,390	1.0000	345,190
	Internal	490	0,6417	314	1,390	1.0000	437,062
	Neonatology	79	0,6417	51	1,390	1.0000	70,465
	Obstetrics	411	0,6417	264	1,390	1.0000	366,597
	Pediatrics	394	0,6417	253	1,390	1.0000	351,433
	Total period	1,761	0,6417	1,130	1,390	1.0000	1,570,747
Total year 2010		2,790	X	1,749	X	1.0000	2,327,096

Table 3 DRG system as a management tool

Period	Medical Departments	Number of cases discharged and validated DRG		CMI achieved	Number of weighted cases		Rate per weighted case (lei)	Coefficient K of extreme cases	Amount realized (lei)
		Total, *of which:*	Readmitted and transferred		Total, *of which:*	Readmitted and transferred			
0		1	2	3	4=1x3	5=2x3	6	7	8=(4x6x7)-(5x6x50%x7)
January-March	General Surgery	284	0	0.5409	154	0	1,222	1.0028	188,244
	Internal Medicine	349	0	0.8362	292	0	1,222	0.9926	353,982
	Neonatology	39	0	0.6603	26	0	1,222	1.0026	31,550
	Obstetrics	242	0	0.6834	165	0	1,222	1.0000	202,098
	Pediatrics	200	0	0.5970	119	0	1,222	1.0000	145,907
	Total period	1,114	0	0.6793	756	0	1,222	0.9978	921,781
April-December	General Surgery	719	14	0.6067	436	8	1,390	0.9897	594,254
	Internal Medicine	897	17	0.8816	791	15	1,390	0.9762	1,062,876
	Neonatology	144	0	0.7733	111	0	1,390	0.9987	154,583
	Obstetrics	681	5	0.8114	553	4	1,390	0.9953	761,647
	Pediatrics	558	4	0.6023	336	2	1,390	0.9877	459,756
	Total period	2,999	40	0.7426	2,227	30	1,390	0.9865	3,033,116
Total year 2010		4,113	40	X	2,983	30	X	X	3,954,897

Table 4 Achievements and actual costs of medical departments in 2010

Medical departments	Number of patients discharged	Patient days	Number of hospital beds	Patients existing and remaining in hospital*	Average length of stay (ALOS)	Bed utilization rate (%)	Cost per day of hospitalization (lei)	Total costs (lei)
0	1	2	3	4	5=2÷4	6=2÷3÷365 days x100	7	8=2x7
General Surgery	1,024	2,884	10	1,039	2.78	79.01	204.93	591,018
Internal Medicine	1,261	6,815	20	1,261	5.40	93.36	119.96	817,527
Neonatology	186	1,118	5	190	5.88	61.26	121.32	135,636
Obstetrics	932	2,937	10	941	3.12	80.47	203.57	597,885
Pediatrics	762	3,264	15	764	4.27	59.62	194.97	636,382
Total year 2010	**4,165**	**17,018**	**60**	**4,195**	**4.06**	**77.71**	**168.95**	**2,778,448**

** Patients at the start of the period + Patients entering in the period + Patients transferred from other department during the period*

Thus in the table no. 1 by the formula [a], resulting amount of 2,327,096 lei, representing the hospital services bought by HIH from the analyzed hospital.

[a] **Number of cases x CMI x Coefficient K x RWC**

In the table no. 2 by the formula [b] resulting amount of 3,954,897 lei, representing the exact quantification of the amount achieved by each department in part by funding of cases discharged.

[b] **(Number of discharged cases - 50% x Number of cases readmitted and transferred) x CMI x K x RWC**

In the table no. 3, costs of each department can be calculated simply by using the following formula, proposed further: The result of this calculation, ie amount of 2,778,448 lei, represents the actual cost which patients treated and discharged from each department have generated in the hospital analyzed.

[c] **Rate per day of hospitalization x ALOS x Number of cases discharged**

The advantage of the analyzed hospital is that has a powerful Integrated Medical Information System, purchased under a project funded by external grants, which allows calculation of costs per patient, respectively on each hospital observation form (admission episode), and thus, calculating the tariff for a day of hospitalization in each department. [1]

The difference between the amount realized theoretically [b] and the amount contracted with HIH [a] is clearly positive (+1,627,801 lei) and is the amount that the hospital would have had to cash in addition to contracted budget, because, regardless of the resources consumed by patients discharged, the amount of 3,954,897 lei reflects the actual funding of cases discharged in the hospital analyzed according to the DRG mechanism.

[1] The rate per day of continuous hospitalization includes the value of medicines, medical materials or services that can not be identified at the patient level.

By comparing the actual value of discharged cases [b] with the cost to treat patients [c], it results a surplus of 1,176,449 lei - savings achieved which would have been kept in the hospital for investment activity.

The difference between the contracted budget [a] and the costs incurred to resolve all cases [c] is a negative (- 451,353 lei), representing a deficit resulting from the fact that the hospital has treated a total of 4195 patients, and charged the equivalent of only 2790 of cases.

In concrete terms, although the hospital activity is profitable, so economically efficient, resulting in more than 50% (4195 realized cases to 2790 contracted), the hospital received 17% less than it spent (2,327,096 lei cashed to 2,778,448 lei expended) and 41% less than realized (2,327,096 lei cashed to 3,954,897 lei realized).

The situation is almost unreal and unfairly, as follows: the hospital has treated 4195 patients, of which only 4113 cases validated by DRG and only 2790 cases paid by HIH(!) Therefore, it results a number of 1405 cases discharged from hospital, for which there was no "leu" returned from the National Unique Health Insurance Fund (FNUASS), patients being treated from the hospital savings.

If the HIH, as a customer of the hospital, would have bought all medical services performed by the hospital, we can say with conviction that healthcare, led by a management team well prepared, is a very profitable activity: the value of all cases discharged and validated in 2010 ie 4113 cases, mean revenues totaling 3,954,897 lei, plus the 82 cases invalidated by DRG (4195 realized cases *minus* 4113 validated).

To obtain at least *fictional this revenue*, the hospital performed the *actual expenditures* 2,778,448 lei, resulting in a surplus of 1,176,449 lei, the absolute amount sufficient to purchase modern medical equipment, for example, a chapter that most hospitals in Romania are very poorly. In fact, although the hospital has spent 2,778,448 lei for 4195 discharged cases, the revenue from HIH, under contract, were 2,327,096 lei cashed for only 2790 cases.

Extrapolating, if the hospital would be treated only 2790 patients (cases reimbursed by HIH), the costs were worth 1,909,795 lei, and the surplus would have been 868,654 lei, as follows:

Table 1 Costs for cases contracted with HIH

Medical departments	Number of cases contracted with HIH	Cost per day of hospitalization (lei)	Patient days	Total costs (lei)
1	2	3	4	5=3x4
General Surgery	621	204.93	1,786	366,005
Internal Medicine	769	119.96	4,206	504,552
Neonatology	130	121.32	795	96,449
Obstetrics&Gynecology	645	203.57	2,053	417,929
Pediatrics	625	194.97	2,692	524,859
Total year 2010	**2,790**	**168.95**	**11,532**	**1,909,795**

6. Conclusion

Our approach generates only type sintetico-analytical results and is not therefore in the category of high-performance solutions. But no matter how comforting conclusions reached, it seems, however, very little credible that in a hospital in Romania to be a real economic efficiency so great. Practical experience makes experts to affirm that such a situation can be caused by several possible causes [2]:

a) The absence of certain costs from general calculation of efficiency of hospital, such as those generated in departments that do not report discharges. For example, Emergency Room costs are not included in the cost of hospitalization day calculated for each medical department from within DRG. The simplest solution would be the breakdown of expenditure made by ER evenly over all the beds that are reported in DRG. The correct solution is, however, the distribution of those costs to departments they belong the patients who stayed in the ER. This method however requires dedicated software.

b) Some deficiencies in monitoring DRG: tariffs by groups of specialties are not consistent with the complexity of disease and thus laborious medical maneuvers such as malformations of the neonate, are undervalued. Also, the cases of admissions under 24 hours or children without personal identification number are not scored. Failing a real score based on the degree of difficulty and complexity of cases resolved is another impediment to accurate assessment of hospital efficiency.

c) Reducing deliberate, for various reasons, of expenditure commitments by the credit holder, but with compromised quality of healthcare, is a situation where economic efficiency is only apparent; option of credit holder is based on the need to generate financial resources, or for payment of prior debt, or for commitment to infrastructure expenditure absolutely necessary in the absence of dedicated funding (eg, lack of participation by the County Council or the City Hall, as owners, to capital repairs or investments necessary for the strategic development of the hospital).

d) Application of statistical calculations on small time intervals (monthly versus quarterly or annually) can generate the emergence of significant errors. It was found that the maximum distortion of method is due to the calculated average length of stay (ALOS), which is highly negatively influenced by the number of patients (patients existing and remaining in hospital) during the reporting month. Specifically, the average length of stay is calculated by the following formula:

$$\text{ALOS}_{\text{department}} = \frac{\text{Patient days for patients discharged}}{\begin{array}{c}\text{Patients at the start of the period + Patients entering in the period +}\\ \text{Patients transferred from other department during the period}\end{array}}$$

Returning to our example, we emphasize the difference between «number of patients discharged» (4195) and «number of patients at the start of the period + patients entering in the period + patients transferred from other department during the period» (4165). The difference in 30 patients can give distortions in DRG monthly calculations.

Therefore, economic efficiency calculated monthly is higher than the real one. The manager, as direct beneficiary of the data, must know, however, that values of economic efficiency will regulate constantly, having the exact value at the end of the financial year.

It is clear that the factors explained above can influence major the economic efficiency analysis of activity in a hospital, so it is mandatory to be discussed with the utmost honesty.

Most of these deficiencies in estimating the economic efficiency of hospital services can be remedied by using costing tools provided by management accounting.

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REALITIES AND PERSPECTIVES

Cross-functional Teams and their Role in Increasing Competitiveness of the Organizational Partnerships

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Abstract: In this paper we review the role of the cross-functional teams for increasing competitiveness of the various organizational partnerships. The present complexity of the international business environment, the high competition and the economic globalization push many organizations to seek for new organizational partnerships, in order to faster reach their goals. Such organizational partnerships may be the networks of enterprises and clusters. For both of them, the main factor to increase competitiveness is the cross-functional teams (CFT) and their effective team work. Through communication and mutual understanding, the CFT can overcome barriers between member entities and lead to better economic parameters. The main employed method was a survey of the management literature about CFT. The result is a clear presentation of the CFT and of their effective work manner to reach a competitive level for various organizational partnerships.

Keywords: cross-functional teams; competitiveness; effectiveness; network

JEL Classification: M21

1 Introduction

Generally speaking a company is being competitive when it manages to produce high quality goods and services at a lower price than its competitors. Competitiveness may be also defined as the possibility to get performances after being present on the market (Gavrila & Gavrila, 2008). But giving the nowadays economic complexity, many organizations are moving to a new organizational model, such as various partnerships, networks of enterprises or clusters in order to reach their purpose faster by putting together their capital and skills. "In a globalizing economy, competitiveness means information and know-how rather than capital and physical assets (Nedelea & Paun, 2009). The more an organization develops the skills and knowledge of employees, the higher is its capability to face the market.

When a knowledge based economy is being developed, a process of revision the internal organization of the enterprises takes place, which is not any more based on Taylor pattern (Dan, 2007).

Factors that have promoted organizational partnerships can be divided into two categories: motivators and facilitators (Baker, 2002). Among motivating factors, the most important are: pressure to access know-how and promote new knowledge and learning, coping with greater competition, obtaining complementary competencies, managing risk, improving flexibility and complex adaptation. As facilitating factors, the following can be mentioned: organizational position and reputation, trust, communication technology and the internet, government and regulatory context.

Networks of enterprises and clusters are created because they facilitate the common use of their resources, but the dissemination and transferability of the final results too. They include various

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entities and geographical areas, companies with various objects of activity; their relations are at the same time of competition and cooperation. For many decades, organizations have been giving higher priority on managing the external environment by building stronger relationships with customers and suppliers. These relationships can, but do not always reach the level of organizational partnerships. Recently, organizations have moved beyond customer/supplier relationships to begin to establish alliances with their competitors (Mariotti, 1996).

Both network of enterprises on the one hand and clusters on the other hand have a reticular structure, they are pure networks after all. While network of enterprises is a homogenous concept, the concept of cluster is a heterogeneous one. The difference is that clusters include, besides companies, universities and research institutes in their structures.

It's important to note that various names were used to designate a network organization, such as: alliance capitalism, agile enterprise, cluster organization, joint venture, meta-corporation, modular corporation, moebius strip organization, organic organization, small firm network, value-adding partnership, virtual corporation (Alstyne, 1997).

The network is seen as a structure that answers in the best way to the exigency of a competitive environment, it's a manner to respond at the challenges created by the exponential rhythm of the technological changes. "To form a business network with the purpose to obtain a global competitiveness seems to be the basis of strategic decisions in many companies today" (Lakhal et al., 1999).

Regardless of their names, the competitive working of networks implies the harmonious coexistence of CFT.

2 Concept of CFT

A crossfunctional team is a team formed of at least three members that belong to different functional entities that are working together to reach a common goal. These members have various functional skills and experience, and they come from different sections within the organization. More concrete "Cross-functional teams groups consists of members of different functional areas, (…) such as engineering, manufacturing or marketing. The cross-functional makeup provides the advantages of multiple sources of information and perspectives." (Keller, 2001)

Another approach mentions CFT as a group of people with a clear purpose, representing a variety of functions or disciplines in the organization whose combined efforts are necessary for achieving the team's purpose.

The need for CFT is more and more frequent. Today's companies or corporations have entered a new business age with rapidly changing technologies and markets. Thus companies are obliged to work respecting shorter and shorter dead-lines and error-free.

To be able to understand teamwork, it is important to make the distinction between a group and a team. On the one hand, a *group* is only a collection of individuals who are brought together for some specified purpose. A *team*, on the other hand, is a collection of individuals that have a common goal and as a whole define, formulate, and agree upon their own purpose, and then works according to that purpose. Groups are based on the sum of the individual efforts to accomplish tasks, where as, teams collectively work together to fulfill common assignments. Teams are using collaboration and communication as well as the constructive conflict. Members of one team also develop mutual responsibility for the success or failure of the team's endeavor.

Within networks of enterprises or clusters, team member have different professions, so that all the necessary knowledge and skills to produce a whole output are represented. They are frequently responsible for producing key products or services. Their business directives, common goals, and joint accountability tie them together into a cohesive unit. They usually sit together and report to the same boss (Katzenbach & Smith, 1993).

People from a team must first share the same values and goals which determine them to agree upon the teams' purpose or mission. They must be dedicated to the team's purpose or mission and work to fulfill it. Certain team members could be hired part time and might show an obvious commitment to their initial departments where they exert their function. Other team members are being recognized as experts and enjoy the prestige associated to them. Another part of the team members may consider they have to keep their trade secrets just to preserve the security for their jobs. All of these circumstances can adversely influence the integrity of a team.

When they work together as a team, the team members accepted the decisions, mission, goals and possible problems within the team. Since the team members are coming from various functional entities and have many interpretations or solutions for the deployment of joint work process, it's normal that conflicts appear within the team. Many discussions might take place in order to find the best conflict resolution. But it is highly important that conflicts be solved in a constructive useful manner. CFT may be considered bridges to success, because the whole is more effective than the amount of parts. CFT make an exchange of ideas and for sure show an improved creativity.

For the CFT to be effective, some internal and external factors are required. As internal factors the following can be mentioned: communication, leadership, conflict resolution, while as external factors the most important are rewards, support and delegation of powers. To be able to reach their mission, the CFT members need time to know each other and to work together, they need to understand their tasks, they need a motivation to mobilize themselves to reach the common goal, and they need to avoid conflicts, which is very often difficult to be achieved.

All partnerships that use CFT need to foreseen teamwork training in their organizations, so that to enable CFT members to work together with the lowest conflict and no confusion of direction. For this, CFT members must have a clear picture of their tasks and role within the team. By taking specialized training, they have the possibility to very well understand all the rules for successful teams. Knowing these, they can adjust their behavior in order to become a real productive CFT member. Training sessions can also play a role of the ice breaking facilitating the mutual interaction and knowledge between team members.

The duration of the CFT within a partnership may be temporary and permanent, depending on the willingness to work together for more than one project, shown by the managers of the member entities.

Within the CFT, we assist to a change of the team leader traditional role. This leader does not give orders or assign task, on the contrary he acts as a team member by asking the others to get involved in the decision making process. The leader checks the evolution of tasks fulfilled by the team members, encourage their performance and makes sure if the on going activity respect the initial plan. At the same time, the leader is the key element in communication with suppliers, managers and other stakeholders. Overall, he or she keeps a definite vision of how to reach the final goal and lead activities to get it.

It is important to note that the role of the cross-functional team in using the expertise of many different people is coupled with the task of enlisting support for the work of the team. This is critical for successful cross-functional teamwork (Parker, 2003).

3 Competitive Advantage of the CFT

CFT and their existence within organizational partnerships signify the main factor to obtain a competitive advantage in today world business, characterized by high technology and unstable markets. But efforts for training are required in order to have effective CFT, they do not happen without special preparation. An organizational partnership cannot just put together team members from various professionals entities and ask them to work effectively. Effective teams are obtained through a special commitment to the values and purposes of the organization and through a developed skill to adjust one to each other. This kind of skill is only obtained by training. "CFT have to be well informed and highly trained through involvement and education before they can work together effectively" (Mohamed et al., 2004). It's important that CFT members to mobilize all their resources and competences in order to contribute to the decision making process.

At the same time, it's important that the effort of adjusting to the organization values to be done in a rapid manner. Although almost all networks today use CFT, there is a difference between those that have successful CFT and those that do not have. As Peter Senge (cited by Woodward, 2012) used to say "The only significant competitive advantage is your organization's ability to learn faster than the competition". The content of the training delivered to CFT includes the best practices consecrated in that specific field.

Since we are living in this information age, it is more and more obvious that "the competitive advantage can be purchased with the currency of knowledge" (Foss, 1996). All successful companies give a high importance to learning activities and spread knowledge both at the general level, but at the individual level too. They also invest in technical endowment and competitive employees, while developing tools and methods to support them (Conner & Prahalad, 1996).

One of these methods is even CFT, whose existence changed the traditional organization and also the working relationships within a network. In the cross-functional organisation, information circulate in a different way comparing with the traditional organization. Thus it doesn't pass through hierarchical channels, but between departments and functions. The activities in the cross-functional organizations are customer-oriented, and no task or skill-based logic, as traditionally (El Amrani et al., 2003).

The CFT bring six important competitive advantages to organizations that successfully implement and manage them: speed, complexity, customer focus, creativity, organizational learning, and single point of contact (Parker, 2003). Thus speed of action is important – CFT with a clear mission and vision must respect the schedule, involve the best specialists, use the whole team, so to reach their goal as soon as possible. Complexity and creativity are well connected with the leader of the team – this has to encourage new ideas, to have a free approach of solutions, beyond traditional borders, to be able to take risks, to promote innovation, to possess the best communication skills, to be very open to initiatives of the team. The role of leaders is crucial; it's up to them to create and develop teams within one organization. "Without leaders and teams, your organization is a dinosaur to go extinct" (Woodward, 2012).

The new generation of leaders needs to possess the skills to work with groups, to ask questions that stimulates production of new ideas, to encourage constructive discussions, rephrasing talks, to communicate in the greatest manner. The new leaders "can obtain technical, scientific, flexible resources, make conflict resolution, have good relations with stakeholders, business knowledge, can set goals, exercise co-leadership, facilitation and support (Parker, 2003).

Any CFT must be customer focused, meaning to have a clear picture of what its needs are, to involve it in satisfying its wishes. Organizational learning means both individual and general use of the best practices and sharing work experience. Finally, any CFT must have a single point of contact within the team and outside it.

We notice the importance of learning within networks or various organizational partnerships. It's important this learn faster, as market competition is very strong and all companies are tempted to use the newest management methods and technologies. The difference is given by the manner in which ideas are being implemented by the networks, and not only by the new ideas themselves. Without the skill of learning very fast, the rapidly changing business environment will reduce the network's capacity to be competitive on the market. This is the main advantage of one organization over another. Within an organization, the high learning atmosphere must be supported by its leaders, so thus learning organizations are happy to be confronted with change; their usual manner of working is struggling with improvement. On the contrary, within the non-learning organization, creativity is restricted; barriers to new approaches are being built by the leaders, so that their potential to be competitive on the market is being more and more reduced. This kind of organizations does not use their most precious resource – employees and their ideas.

CFT learn by using various methods: some members make an accurate observation of their colleagues, or are getting more and more involved in problem solving, others transfer knowledge from one to another, or use intensively their previous experience and adjust is to the new reality.

Forming one CFT and getting its effective work-manner is quite difficult to be done and also rare. It is difficult, because people are proud, but vulnerable, are suspicious, do not like working together, ask for recognition especially in high competitive companies, where mistakes are generally very rare. But when these barriers are overtaken, it's great for that organization. In his book "The five dysfunctions of a team", Patrick Lencioni mentions the five functions of a great team: building trust, mastering conflict, achieving commitment, embracing accountability, focusing on results (Lencioni, 2002). Out of these, building trust is the most important. "Trust is the foundation of effective team collaboration. If members do not feel safe in a group, they will watch for signs of betrayal or disrespect, overreact to threats, become argumentative when they feel slighted, and take feedback too personally. They may withdraw, or they may overcompensate by dominating the group or positioning for recognition" (Lencioni, 2002).

Another way to form effective CFT is using the tacit knowledge. The word "knowledge" can be explained by using "information". Explicit and tacit knowledge coexist within a team. While explicit knowledge means that information that can be easily decoded, tacit knowledge means information that is not easily to be detected and conveyed. "An understanding of tacit knowledge by team leaders can greatly enhance the effectiveness of individual interactions and improve the synergy of teams" (Sherman & Lacey, 1999). In order to take advantage of the tacit knowledge, it has to be transformed into new knowledge by using teambuilding techniques. Thus the new knowledge is being transformed into a source of the competitive advantage for a company.

4 Limitations of CFT

Nowadays, giving the complexity of any organization manner in various companies, larger or smaller, we attend a double manifestation of CFT. On the one hand, CFT are very effective and have already been recognised as sources to obtain competitive advantages. On the other hand, CFT show certain limitations of their work manner within a company. Some specialists say that the most CFT are dysfunctional, but most companies aren't aware of this problem. Stanford University achieved a study of 95 teams in 25 organizations and found that near 75% of CFT are dysfunctional. It's important to mention that the teams have been studied by a panel formed of consultants, academics, and industry experts. The irony is that CFT are the arteries of an organization.

The specialists' panel identified 3 categories of dysfunctions: governance issues, cross-functional functional issues, and cross-functional boundaries issues (Tabrizi, 2010). Governance issues refer at issues exerted by the top management of the companies that may over control the CFT, by budgets, bottlenecks, lack of accountability. Among cross-functional functional issues we mention the relation of each team member with his/her function and functional conflicts. For instance when deciding to form a CFT, the managers may not want to assign the most competent employees, and prefer to keep them in the basic department. Instead of them, they assign people with lower competence as members of the CFT. Cross-functional boundaries issues mean problems that happen when a CFT deals with horizontal boundaries, such as interfaces with other departments or teams, clients, suppliers and various other organizations.

Other specialists state that CFT may become isolated from the rest of organization, this affecting both the CFT and the rest of the employees. "Team members naturally focus inward, concentrating on team goals, and connecting with team mates" (McDermott, 1999). Isolation can lead to team myopia. That means that CFT members, since working as an isolated group, show restriction to any idea coming from outside, thus blocking their creativity.

5 Outputs

The outputs of this paper refer at applying CFT in various organizations. Being applied in many top companies from the USA and Western Europe (i.e. PepsiCola, FranceTelecom) and being more and more used, the concept of CFT proved its sustainability. First it is obvious that CFT are appropriate to the new manner of organization of companies and they harmonize with a more and more complex business environment. CFT are the source for obtaining the competitive advantages by the companies.

At the same time, the concept of CFT has some limitations, too! For instance the study made by the Stanford University on 95 teams from 25 organizations, mentioned earlier, states that 75% of the CFT are dysfunctional. The main way to show CFT as dysfunctional teams is the presence of a conflict. The conflicts arise within the CFT and they need various methods to be worked out. Pretty often, people are not satisfied within the CFT, since they feel frustration and they feel barriers in using their full potential.

However, even if this contrast between team members' dissatisfaction and the general efficiency of CFT is obvious, the general specialists'opinion is that CFT are main factors for companies to obtain long-term profitability.

6 Conclusions

The necessity of CFT within the various organizational partnerships is the normal consequence of the evolution of business environment. The faster it evolves, the more imperative CFT are asked to be founded.

The study of the CFT's work manner is very important to be able to identify the most effective way of people working together within the CFT. The correlation between the team harmony and the profitability of a network is a direct one.

The approaches about CFT are very complex, starting with the projecting the team and going on with training, leadership and its efficiency. The majority of specialists consider training and quality of the leaders as the most important factors to achieve the competitive advantage by the networks using CFT, since they influence the behaviour of people. Only when the cohesion within the CFT is obtained, the competitiveness of a network is ensured.

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REALITIES AND PERSPECTIVES

A Critical Perspective on the Doctrinal Approaches Regarding the Economic Crises

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Abstract: The aim of the present paper is to analyze comparatively the main economic theories regarding the economic crises, including the premises for starting the present financial and economic vulnerabilities on national and international level. On ideological level, the present global financial and economic crisis, similar to the other ones throughout history, initiated an intellectual debate among several applicable theories: Adam Smith's "invisible hand" liberal theory, Keynes's state interventionism theory and even neo-Marxist theories. The issue of the economic cycle and the crisis is a very complex one that cannot be analyzed and explained in a few pages, because talking about the crisis and the economic cycle supposes an analysis of all aspects of the market economy. Thus, we try to found out which of these theories best explain the economic cycles and crises and we believe that the Great Depression of '29-'33 confirmed to a great extent the "Austrian" theory of the economic cycle.

Keywords: economic cycle; crisis; Keynesianism; creative destruction; animal spirits

JEL Classification: B12; B25; B53, H13

1 Introduction

The global financial and economic crisis that started in 2007 is probably the most serious crisis after the Great Depression, during the last 80 years. It is a reason for reopening the debates, meditations, questions regarding the causes for the starting of this crisis, the effects and the solutions for coming out of recession.

The opinions regarding the elements that started the crisis differ among the specialists from this area. On the one hand, there are opinions according to which the state intervention made possible the starting of the financial and economic turbulences that we experience and the involvement of the public authorities will not attenuate the economic difficulties, and on the other hand, there are voices that say that the starting of the crisis is based on the inadequate behaviour of the economic agents, characterized by selfishness, greed, speculation, etc. Without pretending to counterpoint a personal point of view comparable as level, the goal of the present paper is to analyze comparatively the main economic theories regarding the economic crises in order to identify the theory that best explained the economic crises.

2 Conceptual Approaches regarding the Economic Cycle and the Economic Crisis

Thus, first of all, we would like to explain the concept of "crisis" and in this context, we have to approach a notion without which we cannot offer explanations, namely that of "economic cycle".

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In the specialized literature, there is almost an unanimous agreement regarding the fact that the economic activity does not have an uniform, linear evolution, but it is fluctuating, registering in some periods increases, standstills or decreases of the production, inflation, interest rates, labour force employment, etc. Based on the statistical data from several countries, we could notice the existence on the macroeconomic level of several types of economic cycles that overlap and interpenetrate, as it follows: Kitchin cycles (in Joseph Kitchin's opinion – cycles of the monetary offer that last 3-4 years), Juglar cycles (in Clement Juglar's opinion – credit contractions and periodical crises at every 9-10 years), Berry cycles (25-30 years), Kondratieff cycles (50-60 years), Strauss cycles (90-99 years) and cycles of the modern world (300 years).

The studies regarding the cyclic evolutions in the economies with competitional market are focused first of all on the decennial cycle (average or Juglar) which is covered by an ample literature comprising a wide variety of points of view.

Thus, according to some opinions, an economic cycle represents "an oscillation of the production, the income and the employment on national level that usually lasts between 2 and 10 years, this period being characterized by a significant expansion or limitation of the activity in most of the sectors of the economy" (Samuelson & Nordhaus, 2001). Although these economic fluctuations have irregularities, the economic cycle can be considered as a succession of ascending and descending stages. At the same time, there aren't two identical economic cycles, but they can often share similarities.

Anyway, as John M. Keynes stated, by "cyclic movement we understand not only that the ascending and the descending tendencies once they have started do not maintain forever the same direction, but also that they are overturned in the end" (Keynes, 2009). Therefore, the economic cycle includes several stages, that is: expansion, crisis, recession and invigoration of the economic activity (Haberler, 1946).

Regarding the crisis phenomenon, Keynes stated that "the replacement of an ascending tendency with a descending one often takes place unexpectedly and in a violent manner" (Keynes, 2009), while the shift from a descending tendency to an ascending one is not characterized by a sudden turning point.

At the same time, Gottfried Haberler wants to vary the concept of "crisis" by comparing it with the concept of "depression", that most of the times are wrongly used as having the same meaning. According to him, the term "depression" shall be used having the meaning of "a process or a continuous state of affairs of more or less extensive duration" (Haberler, 1946), where the "real income consumed or the volume of consumption per head, the real income produced or the volume of production per head and the rate of employment are falling or are subnormal in the sense that there are idle resources and unused capacity, especially unused labour" (Haberler, 1946).

The same author assigns to the concept of "crisis" two meanings. In the technical sense of the theory of the business cycle, crisis means the turning point that marks the shifting from prosperity to depression. In the regular sense of the daily language used by the financial media and frequently used in the economic writings, this means an acute state of financial shortages (acute poverty), panic, bankruptcies, etc. Technically speaking, a crisis is usually (but not always) accompanied by an acute crisis in the regular meaning of the word. On the other hand, an acute financial crisis can and occasionally appears in a moment when there is no crisis in the technical sense. In other words, the crisis does not always mark the shifting from a period of prosperity to a depression one, but sometimes it appears during a depression or even during a period of prosperity without transforming it into a depression.

As Ludwig von Mises stated, "During the boom period, we are talking about good business, prosperity and advance. Its inevitable consequence, the readjustment of the conditions to the real data of the market is called crisis, syncope, period of bad business, depression" (Mises, 2002).

In this context, we agree to the statement that the cycle expresses the positive and the negative deviation determined by an *endogenous* complex of factors (the economic system includes in itself destabilizing mechanisms that generate cyclic fluctuations) and *exogenous* complex of factors (sun spots, natural conditions, wars, discoveries of new gold deposits, etc.)

3 Theories Regarding the Economic Crises

At the question "Why do economic crises appear?" the answers of the economists are extremely varied. At the same time with the manifestation of the first fluctuations of the economic activity in the XIX century, the representatives of the schools of economic thought have been preoccupied to offer explanations regarding the causes of the economic cycle and the manifestation of the economic crises. There is a diversity of antagonic opinions, but as Roubini states, "ideas matter" (Roubini & Mihm, 2010) and, without an understanding of the economic ideas that influenced the period of the previous crises and the recent ones, we cannot understand how did we get into that situation and how can we get out of it. In this context, in the present paragraph, we undertake to review selectively the theories regarding the economic crises, in an attempt to analyze them comparatively and to identify which of them explain to a greater extent the recent economic and financial crisis.

The classical economic thought originates in the writings of Adam Smith, Jean-Baptiste Say and John Stuart Mill. According to the classical approach, the set up of the economy is based on the *natural order*. The classical economists believe in the natural laws, in the self-regulating virtues of the economy reflected by the famous metaphor of the "invisible hand" that expresses the miraculous process through which "the selfish and divergent interests of the individual economic actors somehow manage to coagulate under the form of a stable system that regulates itself" (Roubini & Mihm, 2010). They use the method of scientific abstraction and deduction, and the preferred analysis environment is the microeconomic one. At the same time, they are convinced that only by having a fair individual behaviour, only by ensuring the personal interest, the social peace can be ensured, not otherwise.

The conception of the classical economists regarding the society in general and especially the economic activity targets its functioning according to its own laws and excludes the involvement of the state in the economic area, the only accepted intervention measures of the state being necessary in order to eliminate the obstacles that come across the way of the free competition. For the classical school, the competition game is the one that allows the prices of the market not to stray away for a long period from the natural prices, by means of the signal system of the prices according to which the producers guide their activity, thus the starting of a general economic crisis is not possible.

The postulates of the Classical School that framed both the classical economists and the neoclassical ones without differentiating them are synthesized by Keynes (Keynes, 2009) under the form of three hypotheses that he disputes: 1)The real income is equal to the marginal disutility of the volume of employed labour force; 2) There is no involuntary unemployment in the strict meaning of the word; 3) The offer creates its own demand, a theory formulated by J. B. Say according to which overproduction is impossible by its own nature.

Essential to the classical conception is the idea of prices and salaries flexibility that acts as a self-regulating mechanism eliminating any excess of demand or offer through which labour force employment is retaken to the maximum level and production is maintained at the potential level.

Within this analysis framework, in the liberal capitalist system, a crisis of the general and prolonged overproduction is not possible and the recession can only be the result of a wrong allocation of resources (Ţigănaş, 2005). Thus, they know the concept of economic cycle, but consider it a temporary deviation that is going to correct itself.

The trust of the classical school representatives in the self-regulating capacity of the economy determined them to look for the causes of the crises outside the economy through exogenous explanations of the economic mechanism, such that elaborated by J.S. Mill, of psychological order – objective alternation of some states of optimism and the state of pessimism or that proposed by W.S. Jevons, known under the name of "theory of solar spots".

John Stuart Mill is considered to be the first one (Roubini & Mihm, 2010) that dealt with the study of the crises in its works; he tried to explain them by means of an external shock or "an accident". While the prices rise and there is the certainty of some high profits, the economic agents will want to earn more and they will resort to credit in order to increase the production of goods, determining other price increases. The unexpected failure of some companies will determine a "general distrust" on the market which will make difficult to obtain a credit and in order to pay the debts (the credit not being available anymore), the individuals will start to sell. Thus, the prices drop and the panic replaces the previous safety feeling.

W. S. Jevons, a representative of the neoclassical theory, considers that an external disturbance, such as solar spots, could disturb the balance of the weather on the planet and therefore the agricultural production and those events could unbalance the economies of the countries, culminating with a crisis.

As a result, taking into account the self-regulating capacity of the markets, the idea that crises are started by external causes remains essential to the school of classical economy, thus the markets can be disturbed by certain external events, but they are shock resistant and they cannot collapse.

The Great Depression (1929-1933) shattered the convictions regarding the self-regulating capacity of the economy for ensuring the balance between economies and investments, under the conditions of the full employment of the labour force. Therefore, for explaining the economic cycle, the causes of endogenous - exogenous type came up as decisive. According to them, the cycles resulted from the conjugation of the action of some internal factors of the economic system, the interdependencies within it and some exogenous circumstances to it. Based on them, the economic system included in itself destabilizing mechanisms that generated cyclic fluctuations and the exogenous factors (natural, social, political conditions, etc.) could favour or hinder their action.

The manifestation of the crises and unemployment phenomena, specific to the Great Depression, represented decisive factors in the revaluation of the liberal economic doctrine and the consideration of the economic analysis according to other principles, showing the limits of the private initiative in solving some economic-social problems with significant impact on the society and major dysfunctionalities of the mechanisms of the market economies, confronted with serious disturbing phenomena. Since the appearance in 1936 of the *J. M. Keynes's* "General Theory" and for 30 years, the economists applied the Keynesian version of the economic cycle. Thus, in order to fight against the destructive effects of the world economic crisis, including of the manifestation of the cyclicity of the economy, the state restored to intervention measures as a viable alternative to the disturbances that came up in the functioning of the market mechanisms.

Keynes's conceptions regarding the economic cycle can be found again in the chapter 22 of the "General Theory" that states that "the essential character of the commercial cycle and especially its regularity regarding the sequentiality and duration that justifies the denomination of cycle is mainly due to the manner in which the marginal productivity of the capital fluctuates […] the commercial cycle should be better considered as caused by a cyclical change of the marginal productivity of the capital, although it is complicated and most of the times worsened by the changes associated with other variables important on short term of the economic system" (Keynes, 2009).

In the Keynesian conception, the succession of the prosperity and the recession stages can be analyzed in causal relation to the evolution of the marginal efficiency (productivity) of the capital, in interdependency with the interest rate. Keynes considers that the classical economists wrongly interpreted two notions: the interest rate and the marginal efficiency of the capital. From his point of view, the marginal efficiency of the capital is "that updated rate that would make the present value of the series of annuities given by the expected benefits brought by the capital good during its life to be equal to its offer price" (Keynes, 2009), and the explanation of the crisis "is not especially an increase of the interest rate, but a sudden collapse of the marginal efficiency of the capital" (Keynes, 2009), as a result of the manifestation of some psychological factors (panic, future uncertainty).

From the Keynes's point of view, the behaviour of the entrepreneur in the investment act mainly depend on the relation between the anticipated profit rate and the interest rate; the entrepreneur is interested in investments under the conditions in which the desired profit rate will exceed the level of the interest. At the same time, the entrepreneur does not ignore the acceleration effect according to which an increase of the consumption can determine an increase more than proportional of the investments in the area in which these goods are manufactured for which the demand has increased, in the same way in which an investment expansion stage can end only because the sales are stabilized at a certain level or are increasing, but at a lower level than the previous one.

Thus the full employment of the labour force depends, in Keynes's opinion, on the aggregate demand. During a crisis period, if the salaries are reduced and the workers are laid-off, people will consume less and the demand will decrease. As the demand decreases, the entrepreneurs will not be interested anymore to invest which determines new reductions of the salaries and dismissals. In this context, the consumers will decrease the consumption and will save more, thus reducing the demand even more, creating the "paradox of saving".

On the other hand, during a period of economic prosperity characterized by "overinvestment" (Keynes, 2009) (the meaning assigned by Keynes to the term is that of investments made under unstable conditions and that do not least because they do not satisfy the expectancies that generated them), the famous economist considers that the solution consists not in the increase of the interest rate because it would discourage some useful investments and it would decrease the inclination towards consumption, but by intervening through the reallocation of the earnings or the reduction of the interest rate in order to stimulate consumption. These measures refer to the suppression of the depressions and the maintenance of a state of "quasi- prosperity" (Keynes, 2009).

Thus, for Keynes, in the absence of a self-regulating mechanism that redirected the economy towards the full employment, due to the fact that prices and salaries are not flexible, the solution consists in applying monetary and fiscal policies that stimulated the economy and that maintained at the same time high levels of the production and the employment of the labour force.

The instability manifested at the middle of the'60, determined the authorities and the economists to question the general theory of Keynes. Nevertheless, according to Hyman Minsky (Minsky, 2011), the current economic theory interprets in an inexact manner the work of Keynes and the financial quasi-crises of 1970, 1974-1975, 1979-1980, 1982-1983 etc. were not the result of the Keynesian policies, but of the fragility of the financial system and the speculative financing.

In that context, in the'70-'80, the *monetarist school* imposed itself, that appeared at the end of the'40 at the University of Chicago and the leader was Milton Friedman whose convictions were also shared by the collaborator of A. Schwartz and by others, as a criticism towards the Keynesian orthodoxy in force. The results obtained following the application of the monetarist policies in the '70-'80, although contradictory, attested the fact that the policy of limiting the money offer led to the stop of inflation, but regarding the issue of unemployment, the offered solution consisted in the stimulation of the offer.

The followers of the monetarist theories tried to explain the cyclical evolutions through the credit evolution: its excessive increase stimulated expansion, but it disturbed the economic balance, leading to the recession stage. According to them, the economic cycle could be a purely monetary phenomenon determined exclusively by errors committed by the authorities in charge of the monetary policy. Criticized for their unilateral character, the monetarist theories regarding the economic cycle grew and diversified especially due to the contribution of the specialists from the Monetarist School (M. Friedman, A. Schwartz). Friedman and Schwartz offered a much different interpretation than that of Keynes regarding the crisis from the '29-'33, considering that it was caused by the reduction of the deposits and reserves from the banks ("Great Contraction"), and that the collapse of the money offer diminished the aggregate demand that at its turn determined the reduction of the expenses, incomes, prices and labour force employment.

One of the most recent monetarist elaborations regards the cyclical evolution as a result of the credit policies adopted by the central banks: when they reduce artificially the interest rate, they stimulate the initiation without sufficient economic grounding of some investment projects that at a certain point prove to be unattainable because the production factors are actually more expensive than the initial evaluations. The recessive stage begins when it becomes impossible for the entrepreneurs to achieve the scheduled objectives and they reduce their investments. Particularly, the monetarists recommend the maintenance of a constant growth rate of the monetary mass in order to ensure the stability of the prices and thus to preserve the neutrality of the monetary policy in relation with the process of achieving the general balance.

Paul Samuelson, author of the *neoclassical synthesis*, believed that the theories regarding the economic cycles must be classified in two categories (Samuelson & Nordhaus, 2001), that is: external theories and internal theories. From his point of view, the external theories considered that the economic cycles originated in the fluctuations of the factors from outside the economic system, such as wars, revolutions and elections, price of oil, discovery of gold deposits, migration of the population, discovery of new resources, scientific discoveries and technological innovations, sun spots and weather; on the other hand, the internal theories took into account the mechanisms from inside the economic system that determined the self-generation of the economic cycles. Developing the Keynesian conception, Paul Samuelson explained the cyclical evolution based on the interdependency between the multiplier and the accelerator, mechanisms whose functioning could determine the economic expansion and recession (Haberler, 1946). From the point of view of professor Minsky, the neoclassical synthesis, that included monetarist nuances and Keynesian elements, failed to explain how it was possible for a financial crisis to appear out of the normal functioning of the economy and neither why in certain periods the economy was susceptible to the crisis, while in other periods was not (Minsky, 2011).

After the success registered by the monetarists, consisting in the eradication of inflation from the American economy, the velocity of money circulation became extremely unstable, according to some authors, due to the emphasis, during that period, put on the monetary policy and those changes compromised the monetarist conception. In that context, at the beginning of the ’70, Robert Lucas set the bases of a new school of economic thought – *new classical economics*, to which also contributed Thomas Sargent and Robert Barro, as main representatives.

The new classical economics adopts the fundamental principles of the traditional classical model, that is: 1. The prices and the salaries are flexible; 2. There are certain stable natural values of the variables through which the markets adjust themselves; 3. The only explanation for the temporary deviations of the observed values of the respective variables from the natural values is related to the imperfect character of the anticipations.

But, in this new analysis framework, the new classical economics brings something new, an innovating element, the so-called hypothesis of rational anticipations. According to this hypothesis, the economic agents formulate their expectations in a rational (objective) way, that is on the basis of the best information found at their disposal, by understanding the manner in which the economy and the effects of the policies applied by the government function. Thus, the state cannot fool anymore the citizens because they are well informed, they have access to the same information as the public servants and they have the capacity to forecast the future and the consequence is the predictability of any economic policy and therefore its ineffectiveness.

The representatives of the new classical economics talk about the *theories of the economic cycle equilibrium* (Samuelson & Nordhaus, 2001), according to which a wrong perception on the evolution of salaries and prices makes the labour offer be too big or too small which leads to the cyclical fluctuation of the level of production and employment. A variant of these theories argues that the unemployment increases during the recession periods because the workers have high salaries that they won’t give up.

As a result, the real economic equilibrium is susceptible to be affected only by the non-anticipated elements of the economic policy. The unpredictable elements of the economic policy can have a temporary effect on the real equilibrium, but this effect has nothing to do with the inability of the economic agents to use the available information, but it is related to the insufficient information regarding the behaviour of the authorities that is often unpredictable. The hypothesis of the flexible prices means that the economic policy can influence the level of the production and the unemployment only if it takes the economic agents by surprise and disturbs their perceptions. But if the policy is predictable, it would be difficult to take them by surprise, thus, on the long term, the economic policy cannot have any effect on the evolution of the economic activity that is exclusively determined by its real factors.

The *new classical* theory is much similar to the classical approach, including the source of the fluctuations of the economic activity and the disequilibrium states: shocks or changes imposed from outside the system.

Some authors (De Soto, 2010 &Minsky, 2011) agree that there are no big divergences between the Keynesians and the monetarists, but on the contrary, there are several similarities among them, due to the fact that both sides used the same economic theory. From their point of view, the crises have exogenous causes (psychological, technological and/or errors of the monetary policy), and the economic cycle can be eliminated, if we do not take into account the forces that produce disequilibrium, endogenous to the system, that lead to economic cycles. Thus, according to them, the causes of the instability are the events found outside the functional dynamics of the economy. Nevertheless, there are also differences, meaning that the monetarists thought that the reason for the destabilization of the economy is the change of the money offer and the Keynesians explained the crisis by variations in aggregate demand.

Unlike the monetarist and Keynesian macroeconomists, the *Austrian School* adopts a theory of the *endogenous* causes of the economic crises which explains their *recurrent* nature (corrupted institutions: the fractional reserve banking and the artificial expansion of the credit) (De Soto, 2010).

The “Austrian” economists (especially Ludwig von Mises, Friedrich von Hayek and Murray Rothbard) explained the economic cycles as a monetary and financial phenomenon, a consequence of an artificial expansion of the credit by banks and other financial intermediaries that determined differences between the monetary interest rate and the natural interest rate and that was not accompanied by a corresponding increase of the voluntary savings. Therefore, through the expansionist monetary policy, the interest rate was artificially reduced below the natural interest rate (the interest rate that resulted from the manifestation of the preferences of the individuals regarding the ratio between savings and consumption) which determined the investments to exceed the savings. Thus, for a more reduced interest rate, precisely induced by the artificial expansion of the credit, several investments that were considered unprofitable then became apparently profitable (malinvestments).

Generally, such monetary expansion would have repercussions on the level of the prices that would gradually increase and that would overturn many of the profitability expectations of the economic agents. In time, in the areas that absorbed with priority and preponderantly the fictitious capital, the economic agents would realize that they extended excessively the capital structure corresponding to their business. They were the ones that under the attractive appearance of the cheap credit, overinvested in comparison with the real exigencies of the market. When the need to limit some economic developments – in excess – became inevitable, then the crisis manifested itself.

Therefore, from the point of view of the “Austrian” economists, the crisis is not caused by the decrease of the demand, an argument supported by Keynes, but on the contrary, by the expansion that precede it and that modifies the structure of the productive apparatus, thus, for them, the crisis is structural in nature. The economic cycles, with the alternation of the periods of expansion and depression, occur due to the resource transfer from one activity to the other, following the modification of the relative prices of the production factors and of the goods.

Nevertheless, Roubini draws the attention on the fact that the Austrian approach is wrong when it comes to the short term policies (Roubini & Mihm, 2010). Thus, in the absence of some governmental investments, the crisis can turn into total depression and according to Keynes and Minsky, on short term it would be better to avoid a collapse of the entire financial system through more flexible monetary policies, stimulating expenses and tax reductions. But, on average and long term, we have to apply the teachings of the Austrians: the reduction of the level of debt both by the population and the companies and the banks, the companies and the households that are insolvent should go bankrupt and start fresh, because maintaining them for an undetermined period only prolongs the agony and nothing else.

Roubini, as well as Keynes, are somehow in error, because the distinction between the short term and the long term economic actions is a theoretical one. In the concrete economy, the temporal horizons interpenetrate and the short term economic policies of the government (for example, fiscal incentives) produce long term effects (structural deficiencies such as an overbidding of the financial services or of the commercial ones to the detriment of the industries or the productive activities).

To the judgment error regarding the temporal horizon, another error adds, maybe even more serious, regarding the economic circuit or flow and the aggregate structure of the economy, more precisely, the separation between macroeconomics (aggregates such as demand and offer, national output, investments and consumption, general level of the prices, etc) and microeconomics (prices of the market, salaries, etc). Thus, since Keynes and up to the present, in the mainstream economics, we have a static circular economic circuit or flow, focused on the concept of equilibrium (as in the principle of communicating vessels), where saving represents a „leak" from the economic system, while the consumption as much as possible (from where it results the importance of the multiplier and the accelerator) is the propulsion factor of the economic mechanism and the factor for maintaining the equilibrium.

Moreover, microeconomics and macroeconomics are linked through statistical data, a fact which even a post-Keynesian such as Robert Solow considered to be strange, because he talked about a "decoupling" between micro and macroeconomics.

In the dominant theory (where we can place all the neoclassical synthesis, from post-Keynesians to monetarists and the followers of the new classical economics), the money is neutral. In other words, the variation of the money offer can have only short term effects on the real economy (inflation or deflation), but it cannot produce structural modifications (that is mutations in the orientation of the economic agents and therefore in the structure of the economic activities). Thus, the facility of the fiscal or monetarist solutions for the economic crises and implicitly the idea that the fine tuning can be done (aggregate demand = aggregate offer) for the full employment of the labour force, the sustained economic growth or, if applicable, the maintenance of the stability of the prices.

If from various reasons (as in the old "banking school", the stimulation of business and commerce or as in the Keynesian macroeconomics, the reaching of the full employment of the factors, especially the labour force or, more recently, the maintenance of the economic growth) there is an excessive increase of the money offer, the result is an extension of the production periods or, in other words, the employment of too many factors in the production of capital goods, apparently profitable. When the problems arise due to the incapacity of the banks to sustain the excess of projects, the economic crises starts and these capital goods or, more precisely, these producing economic branches are no longer profitable. In this context, the introduction of additional quantities of money means the prolongation of the "agony" with devastating or even disastrous effects in the future. On the other hand, the stimulation of the aggregate demand through public works (public investments) means to distort even more the structure of the economy. Therefore, even if the shock is painful, it must be left to manifest itself, because it would produce a shorter crisis, not a depression.

Rothbard showed the contribution of the Austrian theory to the explaining of the economic history in the paper "America's Great Depression" (Rothbard, 2000). Far from being a proof of the failures of the uncontrolled capitalism, the Crash from 1929, rather illustrated the dangers that resulted from the involvement of the government into the economy. The economic collapse came as a necessary correction of the artificial boom induced by the Central Bank by means of monetary expansion in the '20. The attempts of the government to "heal the effects", only worsened the situation. For Rothbard, the bank policy was the key of the American economic history.

The fact that at the same time with the change of the conditions of an institutional system, most of the part of a theory previously used lost its significance or suddenly limited it, precisely represented the signal, the proof of its falsity. The rejection of the universal character of the Keynesian theory was generated by the crises from the '70 from the western economies. An even more convincing invalidation of the monetarist theory was determined by the failure of the monetarist recipes of "shock therapies" in Russia, Eastern Europe, as well as the categorical refusal of China and the dynamic development of its economy.

Following the performed analysis, we can conclude that while the classical theory, the Keynesian, the monetarist and the new classical economics believe that the crisis is determined by exogenous causes to the system, the Austrian School believes in endogenous causes.

Recently, the American professor Hyman Minsky, considered to be a *post-Keynesian* economist, has presented in his book "Stabilizing an Unstable Economy" a theory regarding the financial crises that are based on an interesting hypothesis, the hypothesis of the financial instability (Minsky, 2011). According to this hypothesis, two sentences are valid: 1. The capitalist market mechanisms cannot lead to a state of total equilibrium with stable prices and full employment; 2. The cause of the serious economic cycles is represented by financial characteristics that are essential to capitalism. Practically, Minsky brings again to our attention an aspect that has already been mentioned by Keynes in the General Theory, an aspect that got lost in the present standard theory. Therefore, his important contribution is his attempt to understand the theory of Keynes, that demonstrated with undisputable arguments that the "success in the attempt to make the economy work can only be temporary; the instability is an inherent and unavoidable defect of the capitalism" (Minsky, 2011).

At the same time, from a different perspective of the economic thought, some economists update the concept of "*animal spirits*", used for the very first time by the classical liberals such as David Hume, developed by J. M. Keynes and presented as revolutionary hypothesis regarding the economic crises in the thesis of the Nobel prize laureate George Akerlof and the professor Robert J. Shiller (Akerlof & Shiller, 2010).

In 1739, David Hume published *"A Treatise on Human Nature",* a paper where he used the term "animal spirits" in order to identify the reasons that stayed at the basis of the decision making in the actions of the human beings, as major study subject of human nature. Later on, J. M. Keynes developed that concept in his paper "*The General Theory of Employment Interest and Money"*. Keynes found that the "animal spirits" represented the determinant factor based on which human beings, when they had a choice, rather decided to act than not to act. Keynes reached to the conclusion that the taking of the economic decisions was not just a simple rational mathematical calculus, but an impulsive process, led by human feelings, expectations, experiences and states of trust and pessimisms that can cause fluctuations in economic activity (Keynes, 2009).

Without animal spirits and resorting only to mathematics and economic analysis, the economy will fall in a permanent state of apathy, because it is possible that the human being limited their reactions or decided not to react at all: "If the animal spirit is weak, and the spontaneous optimism starts to rock, leaving us to depend only on the mathematical expectations, the enterprising spirit will fade and die" (Keynes, 2009).

Thus, according to the opinion of the great economist, the crisis is not necessarily the result of rational calculations, but rather "the consequence of the unbalance of the delicate equilibrium of the spontaneous optimism" (Keynes, 2009). Therefore, Keynes explains in the chapter 22 from the General Theory dedicated to the economic cycle the fact that the prosperity stages are characterized by optimism, even overoptimism, many investments, abundance of capital goods, high prices, increasing production costs, till the moment when a collapse of the marginal efficiency of the capital appears, which makes crisis even more difficult.

In the context of "animal spirits" developed by Keynes, George Akerlof and Robert Shiller, the "animal spirit" is associated with the manifestation of trust, with a naive optimism that pushes the consumer to exaggerated expenses and the businessman to too big investments, people believing that the economy will permanently grow, offering the possibility to the two authors to include in their paper the most important economic issues that interfere with the animal spirits: the social limits of profit; the illusion of money; changes in the economic actions; legends instead of facts and numbers; corruption; exuberance and overtrust. In their opinion, the "animal spirits" represent the key-element (Akerlof & Shiller, 2010) in a different vision on the economy that explains the fundamental instabilities of capitalism and reaffirms the role of the state in correcting the unbalances that are related to the irrationality of the markets or the wrong perceptions of the individuals: "Such a world of animal spirits gives the state the chance to intervene. Its role is to establish the conditions in which our emotional states can be used in a creative manner in order to serve for a higher purpose. The state must set the rules of the game" (Akerlof & Shiller, 2010).

The animal spirits, as Akerlof and Shiller demonstrated, are decisive factors in the evolution of the economy, for the starting of the economic crises, but unfortunately, not yet for the economic thought, as well as the neoclassical theory, whose representatives argue that the economists should not take at all into account the animal spirits. Nevertheless, the crises return and evolve and this is the reason why we believe that the economists and the authorities should begin to review the theories and also to evolve in their manner of economic though, because if we do not face accordingly this challenge, then we have to accept that not only the economy is in crisis, but also the economic science.

4 Conclusions

Finally, we would like to emphasize the main differences between classical economics and the mainstream economic theory, as it follows:

1. Macroeconomics and microeconomics as distinct activity areas and economic policy do not exist, but there is only an economic system, if the expression in allowed, or a certain economic order.

2. There is no short term and long term, but economic activities on different temporal horizons.

3. The interest rate is not given by the "marginal efficiency of the capital", but by the offer and the money demand. On the contrary, the interest rate regulates the savings and the investments. From here it results the importance assigned by the classicals to the "healthy" money, eventually with a 100% reserve of precious metals or at least fractional. Somehow, the classical economists preoccupied by the real economy (production, distribution and consumption) have also thought that money is "neutral". But believing that the state is nothing else than a judge and a supervisor of the game of "free competition", they could not think that there are monetary or fiscal excesses and therefore radical deviations from the relatively balanced evolution of the economic activity. This is the reason why for them the crises can only be temporary and the eventual cycles have exogenous causes.

Also, we would like to synthesize the main differences between the "Austrian economy" and the mainstream economic theory, as it follows:

1. Admits the ideas of the classical, less the errors (value-labour, salary fund, the theory of capital etc.).

2. There is no static economic "circular flow" focused on equilibrium but an *economic process*. The activities are developed in time, dynamically and that is why the structural relations matter (among prices, categories of goods, activity branches etc.).

3. There is not homogenous "capital" that can sum up all the goods used for the production of other goods and for giving a monetary expression to them. But, on the contrary, there are different categories of capitals, in different relations with the market and the categories of consumer goods. They result from different production periods and from different relations between the market of the factors (the past of the activity of the enterprise) and the market of the consumer goods (the future).

4. Time and money matter count a lot in the estimates and the economic calculations of the enterprises. Thus, money cannot be neutral. Therefore, a distortion of the ratio between the future

consumption and the present consumption, that is the price of time or the price of money (interest), determines a long lasting variation of the structure of the capital or the production periods.

The present economic crisis will lead to the rediscussion of the manner in which the government can properly influence the economy. Basically, the discussion must end in changes that would lead to a better equilibrium between discretion and rules in the fiscal policies of the governments. The successful solving of the crisis will depend on the adoption of a pragmatic solution that took the best from both sides, that of the "invisible hand" and that of the "visible hand".

Thus, we subscribe to the Mises's opinion, according to which in a market economy, "the main task of the political power is to protect the unobstructed functioning of the market economy against fraud or violence appeared inside or outside the country" (Mises, Economic Policy. Thoughts for Today and Tomorrow, 2010), and a functional market economy needs administrative and judicial organs that established and followed the observance of the rules of the economic game by all economic and social actors.

Each of the presented theories contain some truth, each economic thought current has something relevant to say. Without pretending to have solved the dilemma related to which one of the theories (classical, Keynesian, monetarist, Austrian School, etc.) explain better the economic cycles and crises, we believe that the Great Depression of '29-'33 confirmed to a great extent the "Austrian" theory of the economic cycle.

Causa causorum of the economic cycles is the excessive money offer. The concrete manifestation is represented by "malinvestments"- wrong investments, not overinvestments, as it was wrongly interpreted by many authors. If monetary overoffer existed, why wasn't inflation produce in what many economists called "the longest period of sustained economic growth"? (Alan Greenspan called the '90 and the beginning of the 2000, "The Great Moderation") (Greenspan, 2008). Due to the high increase of the labour productivity that theoretically leads to a decrease of the prices, productivity that enough people rediscovered in the high-tech industries? Probably, most part of the money excess materializes in the financial sector where it has taken place an exponential increase of the price of the assets or the general price index. But this phenomenon proves the "Austrians" right by saying that important are the relative prices that maintained the structure of the economic activities and not an "illusory" macroeconomic aggregate.

However, two problems remain somehow unsolved by the Austrian theory of the economic cycle (which will be the subject of another study): 1. Is or is not the economic cyclicity a characteristic of the capitalist system?; 2. Is there or is there not a dichotomy between a supposed "real cycle" and a "financial cycle", given the overwhelming importance of the financial-banking sector in the present day?

Nevertheless, the instability accompanies the capitalist economy with a complex structure and on-going evolution that can determine the manifestation of the very high inflation phenomena and deep crises. In these cases, the public institutions and policies must intervene in order to restrain the instability impulse, by identifying and applying some adequate policies, but we cannot say if it must be a Keynesian, monetarist or Austrian policy, because there are several types of crises and if a theory worked in a certain context, it does not mean that it will also have the expected effects in the present. Thus, we have to analyze more carefully the past in order to understand it, to adopt solutions that combine the liberal thought with the interventionist one and of course, also to include in the public policies the animal spirits.

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REALITIES AND PERSPECTIVES

Challenges and Risks of Global Crisis in the European Labour Market

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Abstract: The world enters in the year 2012 facing a stark reality, one in three workers in the labor force is currently either unemployed or poor. According Eurostat, 24.325 million men and women in the EU-27, of whom 16.925 million were in the euro area EA-17, were unemployed in January 2012. These data reflect acute problems in labor markets, in part created by the financial crisis and, if labor conditions remain unfavorable for a long period, these problems could transform into another chronic problem. This paper takes, according to the statistical database, a comparative perspective on the labor market impact of the actual global crisis on Romania and European area. It starts from the reality that global crisis had a significant impact on the development of unemployment in Europe countries, the rise in unemployment, being in relation to GDP reductions, varies. In this reality, only economic and social policies are fair, consistent, well-focused, efficient, which can reduce risks and keep a balanced budget and social order.

Keywords: global crisis; labor market prospects; Europe 2020

JEL Classification: E31; E52; E58

1. Introduction

From the economic crises of underproduction in agriculture (by mid XIXth century) to industrial overproduction or crises centered around growth differences between countries, to exchange, bank crisis or profiled on a simultaneity of phenomena, which succeed on large time intervals at global level as well, all affect the labor market and fuel unemployment. The current financial crisis and recession that has followed reflect the acute problems in labor market (Tarullo, 2011): out of a global labour force of 3,3 billion, 200 million are unemployed and a further 900 million are living with their families below a US$2 a day, the poverty line. (International Labour Office, 2012)

The crisis has brought new challenges, being more generalized, a persistent increase in unemployment in advanced economies, and the targeted measures and objectives should be adjusted in relation to the dynamics of current events. Time and time again, Europe has not found the right answers to extreme situations, it did not know how to coordinate policies oriented towards growth and stability and it was incapable to manage the social and economic phenomena, in order to prevent or correctly manage the recession and unemployment. The malfunctions of labor market policies and the social protection systems inefficiency worsened unemployment. The Member States have a good network protection against income loss during unemployment, but there is the tendency to provide a passive income which emphasized the long-term unemployment. The European Employment Strategy Work Force primarily aimed at supporting Member States and social partners in their effort to modernize and adapt to the current labor market requirements. Lisbon strategy brings a novelty in the way of approaching the European Employment Strategy, as in the employment issues begin to be seen in regional terms, considering that at this level there can be developed strategies and there can be found solutions that would take into account the local peculiarities.

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This paper aims at analyzing the impact of the global crisis on the labor market in European countries compared with the situation in Romania, by using and interpreting statistical data, by evolutions and comparisons, taking into account the correlations between different indicators considered to be suggestive for the policies in the employment domain.

2. The Global Crisis and Unemployment: Connections and Interdependencies

The unprecedented crisis in global financial markets affected the wider economy and increasingly impacting on labour markets. Analyzing the effects of financial crisis on unemployment on a scale of 97 countries, Bernal - Verdugo et al, (2012) found that long-term unemployment is extremely persistent, but becomes statistically significant only two years after the occurrence of a crisis. A long-lasting increase in the unemployment rate following the occurrence of a financial crisis determines the increase of unemployment rate by about 1 percent at the peak (three years after the occurrence of the crisis) and by about 0,5 percent over the medium term (six years thereafter), when long-term unemployment stabilizes at a level 6 percentage points higher than the pre-crisis level.

In Global Employments Trends, International Labour Office analysts identify, at the beginning of 2012, the development of a three – stage crisis:

- the first stage, in which the initial shock of the crisis was met by coordinated fiscal and monetary simulus, which led to recovery in growth and avoided further contraction and higher unemployment, but it proved insufficient to bring about a sustainable jobs recovery, most notably in advanced economies; in EU -27, between 2008 - 2010, unemployment rate increased from 7,1 % to 9,7 % (table 1)

Table 1. Real GDP growth rate and unemployment rate

Geographical areas	Real GDP growth rate – percentage change on previous year			Unemployment rate - total %			Position in the EU by Unemployment rate
	2008	2009	2010	2008	2009	2010	2010 - ascending order
0	1	2	3	4	5	6	7
EU (27 countries)	**0,3**	**-4,3**	**2,0**	**7.1**	**9**	**9.7**	*16-17*
EU (15 countries)	*0,0*	*4,3*	*2,0*	*7,2*	*9,2*	*9,6*	*16*
Euro area (17)	0,4	-4,3	1,9	7,6	9,6	10,1	*18*
România	7,3	-6,6	-1,6	5,8	6,9	7,3	7(9)
United States	-0,3	-3,5	3,0	5,8	9,3	9,6	16
Japan	-1,0	-5,5	4,4	4	5,1	5,1	3-4

Source: Eurostat, http://epp.eurostat.ec.europa.eu/tgm/, with personal processing

Unemployment becomes the expression of economic growth (GDP), labor productivity and population dynamics, mainly in the active one, indicators which in turn have many other more specific determinations. The unemployment rate increased significantly during the crisis years, both in Europe - where the euro area remains the most affected (with some exceptions - Austria, Germany, Netherlands) and the U.S.; Japan keeps low rates, although there was a relative increase in 2009, maintained in 2010. In 2008 the unemployed accounted for 7% of the workforce in the EU-27. In 2010, their number was about 10%, even higher in the euro area, with the prospect that the unemployment rate would remain above 9% in 2012[1]. Unemployment is particularly high, exceeding

[1] *European Commission, Annual Growth, Appendix 2, Macroeconomic Report*, COM(2011) 11 final, Brussels, 12.01.2011, http://ec.europa.eu/europe2020/pdf/2_ro_annexe_part1.pdf

12%, in Estonia, Ireland, Greece, Slovakia, Latvia, Lithuania and Spain. Long-term unemployment - people who did not have a job for over a year - has grown significantly and now it represents about 40% of total unemployment in the EU. This highlights the risk of sustainable exclusions on labor market. Unemployment is particularly high among people with low qualifications of migrants and youth. The unemployment rate among young people exceeds 20% in more than half of EU Member States and it reaches 42% in one country (Spain).

- the second stage, higher public deficits and sovereign debt problems led to increased austerity measures in an attempt to bring confidence to capital markets; fiscal stimuli started to wane, and support the economic activity in advanced economies concentrated on quantitative, easing monetary policies; in this context, GDP growth rate dropped globally, from 5 percent in 2010 to over 4 percent in 2011 until unemployment rate;

- the third stage, in which space policy has been seriously limited, making it difficult to stop, or even to slow down, the further weakening of economic conditions; the financial industry remains highly vulnerable, weakening its capacity to lend to real economy and high levels of sovereign debt in advanced economies have limited the capacity of governments to implement a further round of stimulus programmes; according to the IMF, the most recent predictions (January, 2012) on world output regards achieving the growth rate by 3,3 percent in 2012 and 3,9 percent in 2013 and for European Union the growth rate is of -0,1 for 2012 and 1,2 for 2013.

The evolution of the aggregate unemployment rate conceals fairly wide differences across EU countries. In 2010, the unemployment rate remained persistently above the pre-crisis level in most of Member States.

The latest information released by Eurostat, estimates that 24.325 million men and women in the EU-27, of whom 16.925 million were in the euro area (EA-17), were unemployed in January 2012. Compared with December 2011, the number of persons unemployed increased by 191 000 in the EU-27 and by 185 000 in the euro area. Compared with January 2011, unemployment increased by 1.488 000 in the EU-27 and by 1.221 000 in the euro area.

Among the Member States, the lowest unemployment rates were recorded in Austria (4.0 %), the Netherlands (5.0 %) and Luxembourg (5.1 %), and the highest rates in Spain (23.3 %), Greece (19.9 % in November), Ireland and Portugal (both 14.8 %). Compared with a year ago, the unemployment rate fell in ten Member States, remained unchanged in two and rose in fifteen Member States: the largest falls were observed in Latvia (18.2 % to 14.7 % between the third quarters of 2010 and 2011), Lithuania (17.5 % to 14.3 % between the fourth quarters of 2010 and 2011) and Estonia (13.9 % to 11.7 % between the fourth quarters of 2010 and 2011). The highest increases were registered in Greece (14.1 % to 19.9 % between November 2010 and November 2011), Cyprus (6.3 % to 9.6 %) and Spain (20.6 % to 23.3 %). In January 2012, 5.507 million young people (under 25) were unemployed in the EU-27, of whom 3.314 in the euro area. Compared with January 2012, youth unemployment increased by 269 000 in the EU-27 and by 141 000 in the euro area. In January 2012, the youth unemployment rate was 22.4 % in the EU-27 and 21.6 % in the euro area.

Other various factors influence the labour market effects of the crisis (Werner Eichhorst et al., 2010): the structure of the economy plays an important role as vulnerable sectors represent a larger share in some countries than in others; countries where the financial sector has a relatively high employment share – such as the United Kingdom and to a lesser degree Ireland – were it hit first and hard, as the crisis spread throughout the financial system; countries are also affected by the varying degrees of exposure to downturns in housing markets, construction sectors and manufacturing exports.

The current analysis of unemployment confirms the very complex feature of this phenomenon, as an expression, mainly of economic and social developments – the gross domestic product, of labor productivity and active population dynamics of assets, which, in turn, have many other more specific determinations. But a reverse effect, a decrease in unemployment, it had the evolution of active working population in different countries. Thus, it is found that in the U.S., as well as in Europe, the demographic pressure decreased to the current situation to 1985; in the aftermath, the new generations that reached the age of hiring are less numerous. However, in Japan, the increase of active population exercise further an influence on the direction of unemployment increase, but the economic factors and public policies successfully neutralizes this effect.

Unfortunately, Europe has not yet found the right response in extreme situations – it failed to coordinate policies oriented towards growth and stability and it was not able to manage the social and economic phenomena, such as to prevent recession and unemployment.

3. The Lisbon Strategy Agenda 2020 - Goals and Results

As the "Lisbon Treaty" was born from the ashes of "Constitutional Treaty", also the "Strategy 2020" is born from the ashes of the "Lisbon Strategy". Europe is reinventing itself every time it encounteres an insurmountable obstacle. (Radu, 2010)

The "Lisbon Strategy" was adopted by the Heads of State and Government united in March 2000 at Lisbon European Council and it was meant to transform the European Union by 2010, in "the most dynamic and competitive economy in the world based on knowledge, capable of sustainable economic growth, generating new, better jobs, and characterized by a greater social cohesion." The objective was to achieve an economic growth of 3% per year and to create 20 million new jobs by 2010, under the conditions of achieving a rate of 70% overall employment and the employment rate among women of 60% on the accounts of: encouraging innovation, supporting small businesses, including the reduction of the bureaucracy that they faced in carrying out the activity; increased competition in the telecommunications market and liberalization of gas and electricity market; reducing emissions of greenhouse gases.

As finality, it can be concluded that, overall, the Lisbon Strategy has had a positive impact on the EU even though its main targets (i.e. 70% employment rate, and 3% of GDP spent on R&D) were not achieved and the disparities between countries are important. Until 2008, for example, there were obtained relatively good results. In 2000-2008, the GDP per capita increased by 13%, and the unemployment fell by 7%. The unexpected global financial and economic crisis, the big surprise from the latest years had surprised everyone, alleviating the bitter taste of failure in achieving the set targets.

In early 2010, the C.E. presented the draft EU economic strategy for the next 10 years, replacing the Lisbon Agenda, „Europe 2020", a strategy for jobs and smart, sustainable and inclusive growth, that is based on five EU headline targets which are currently measured by eight headline indicators[1].

To reach these objectives, the EES encourages measures to meet three headline targets by 2020[2]: 75% of the population aged 20-64 should be employed; school drop-out rates below 10%, and at least 40% of 30-34–year-olds completing third level education; at least 20 million fewer people in or at risk of poverty and social exclusion. In line with the Europe 2020 strategy, the European Employment Strategy (EES) seeks to create more and better jobs throughout the EU.

The realities of recent years are presented in Table 2 and statistical previsions are not very optimistic, in the context of the recent developments.

[1] http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

Table 2. Employment rate, age group 20-64[1] - %

	2000	2005	2006	2007	2008	2009	2010	Target 2010	Target 2020
1. **EU (27 countries)**	**66.6**	**68.1**	**69**	**70**	**70.3**	**69**	**68.6**	**70**	**75**
2. Euro area (17 countries)	65.5	68	69	69.9	70.2	68.8	68.4		
EU (27 countries) Employment rate by gender, age group 15-64: Males	70.8	70.8	71.6	72.5	72.7	70.7	70.1		
EU (27 countries) Employment rate by gender, age group 15-64: Females	53.7	56.3	57.3	58.3	58.9	58.4	58.2		
EU (27 countries) Employment rate of older workers	36.9	42.3	43.5	44.6	45.6	46	46.3		
3. **Romania**	**69.1**	**63.6**	**64.8**	**64.4**	**64.4**	**63.5**	**63.3**		**70**
4. United States	76.9	74.8	75.3	75.3	74.5	71.3	70.5		
5. Japan	74.0	73.9	74.5	75.3	75.3	74.5	74.7		

Note:

1. EU (EU27), at the level of 2010 are: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, United Kingdom, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, Spain, Hungary.

2. The euro area (EA17) consists of Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

In spite of progress, Europe's employment rates, at 68-69% on average for those aged 20-64 – are still significantly lower compared to over 70% in the US and Japan. The employment rate of women and older workers are particularly low: only 63% of women are in work compared to 76% of men; only 46% of older workers (55-64) are employed compared to over 62% in the US and Japan. Moreover, on average Europeans work 10% fewer hours than their US or Japanese counterparts. Young people have been severely hit by the crisis, with an unemployment rate over 21%. There is a strong risk that people attached to the world of work lose ground from the labor market.

The European analysts consider that there are necessary economic long-range reforms, which should guarantee that European citizens will maintain their quality of life, especially now that the crisis has revealed its flaws. The total number of unemployed in U.E. is equal to the entire population of Romania, the budget deficits of the Member States amounted, in early 2010 to 7% and public debt to 80% of GDP. The exit from the economic crisis will only be a result of the strategy "Europe 2020", but not a direct objective. The strategy provides only a general framework for this momentary goal. (Radu, 2010)

[1]Source: Eurostat, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_10&plugin=1

4. The Global Crisis Impact on the Evolution of Unemployment in Romania

The financial crisis was felt strongly and directly also by the Romanian population by increasing unemployment, taxation and hence poverty, amid austerity public policy, mainly for disadvantaged sanction: VAT increase, reduce staff salaries budget, tax reduction and pension, meal vouchers taxation, etc. (Dragomir, 2011) If previously in Romania it was registered a steady decrease in unemployment which reached the minimum in 2008, when unemployment was 4%, it increased in only one year to the level of 6.3%, in order to achieve in 2010 an average of over 8%[1]. (table 3)

Table 3. The evolution of unemployment in Romania[2]

Year	Unemployment rate at the level of December %	% Unemployment rate The annual average%	Total number of registered unemployed The annual average People
2007	4	**4.3**	386,667
2008	4.4	**4.0**	362,429
2009	7.8	**6.3**	572,974
2010	6.9	**7.6**[3]	693,407
2011[4]	5,12	7.8	710,000
2012 – future prospects		7.3	675,000

It must be noted that the evolution of labor resources in Romania was also under the impact of demographic and social factors such as: aging; the migration which increased among the young people with higher education; early retirements; degree of urbanization; the structure economic and technical equipment; the development level of agriculture, other socio-demo-graphic imbalances - which has partially damaged the reality of the statistics on unemployment.

A form of masking unemployment is that it derived from retirement. As a result of economic restructuring process, but also under the influence of political goals, many people who satisfy the seniority condition, but not the age, have been retired, according to a law appeared overnight. Between 2002 and 2005 the number of early retired persons increased by 50% and for partial early retirement with 84.1%, such a phenomenon is abnormal (Kardos, 2010, p. 5) and currently incriminated, but developed under the rule of law.

Thus, the analysis of the evolution of unemployment in Romania reveals the following:

• the rise of unemployment resulted in an immediate decrease in consumption and demand, a reduction in available income, also reflected in the emergence of national social tensions;

• if earlier, the increase of unemployment was due mainly to the effects of pre-election policies and / or local financial crisis, this time it is mainly due to external effect of global economic crisis whose symptoms we have not been able to manage, reducing strongly the external demand, with repercussions on internal production; (Lungu & Barbuceanu, 2010)

• the economic crisis has negative effects on both people's incomes which will continue to decline and the demand for social protection systems (unemployment benefits, guaranteed minimum income, social housing, social services, etc.) will increase;

• under the State's need to increase the social welfare costs, reducing income (budget revenues) becomes increasingly drastic, causing new austerity measures, which all poor people fully supports;

[1] ANOFM, Activity report for 2010, http://www.anofm.ro/anofm-raport-de-activitate-pentru-anul-2010
[2] www.anofm.ro/
[4] Future prospect for 2011, 2012, Human Resources - factor of development and competitiveness, http://eucautdelucru.ro/pdf/Studiu_Analiza_ocupare_somaj_110223.pdf

• the decrease of employees in the economy amid crisis has not lead to higher unemployment, either because of leaving the employment system of certain categories of people, usually the elderly, or by changing the socio-professional status of people engaged in private individual activities;

• the young people aged up to 30 years are the most affected by the phenomenon of unemployment, at the end of December 2011 it was officially registered 225,941 people, representing 49% of the total number of unemployed; this segment is one in disadvantage, because young people suffer most in the contact with the labor market being in disadvantage towards adult age groups, so in that, for years among these latter populations segments there were kept in upper level of employment, even though the economy was and it still is in recession, and the lack of experience in work - often seen as a prerequisite to the requirements of a job;

• the fact that young people were not supported in their efforts to fit the labor market has led to increased migration to other European countries. In this respect, the Romanians are the largest group of workers living in another Member State in 2010 (27%), followed by Poland (21%). They preferred Italy (41%), Spain (38%) and at a wide range Germany (5%). Mobility trends are rather influenced by economic developments. The Romanian and Bulgarian workers, the mobility peak was in 2007, followed by a sharp drop in 2008 and 2009. In 2010 there was a slight increase, but far from the level recorded in 2006-2008.[1]

These differences lead to the non-correlation of primary income (salary, profit, etc.) with taxes / social contributions and income from social transfers based on these taxes and social contributions (pension, unemployment benefits, minimum income support, disability allowance, allowances, etc.).

In this reality, only equitable social, coherent, well-focused, efficient policies can reduce the hazards and balance the budget and the social order. In order to achieve an employment rate of 70% in 2020 to 20-64 years age group it is a priority the implementation of the measures focusing on removing the constraints in the way of employment growth, leading to a better functioning of labor market, facilitating the transition of unemployment or inactivity to employment, strengthening the professional skills of the workforce and increase the quality of employment of residents in rural areas, young people and women.[2]

4. Conclusions

The current global crisis has caused recession, chronic budget deficits, excessive public debt, unemployment, poverty, problems facing governments everywhere today and it requires the practice of flexible macroeconomic policies, coordinated internationally. The labor market has turned into a collector of social tensions, becoming, in turn, a constant supplier of economic and political instability. (Dragomir, 2011)

The strategic guidelines established in the recent years at EU level have prompted the reform of employment, being created new jobs since 2000, but later, the resulted effects were modest and the difficulties were more important, culminating in the manifestation of global financial and economic crisis. The unemployment rate has increased significantly during the crisis in Europe space, where the euro area remains the most affected. Overall, almost 10% of the active population is unemployed; there are states in which the youth unemployment rate reaches 40%; it is estimated that 80 million citizens live below the poverty line in Europe.

In Romania, the financial crisis was strongly and directly felt by the population by the increase of unemployment, taxation and hence poverty, amid some public austerity policies. Household income continues to decline, given that the GDP / capita of Romania is one of the lowest in the EU (position

[1] European Commission, Commission Report on the functioning of transitional arrangements on free movement of workers from Romania and Bulgaria, http://ue.mae.ro/local-news/851

[2] Government of Romania, National Reform Programme (2011 - 2013), Bucharest, April 2011, http://ec.europa.eu/europe2020/pdf/nrp/nrp_romania_ro.pdf

26 in 2010). The unemployment rate was followed by the absolute increase in number of unemployed, under the impact of demographic and social factors resulting from the recent transition country: aging population; migration, to a growing level; early retirement; economic structure and poor technical equipment; the development of agriculture; social-demographic imbalances. In order to achieve an employment rate of 70% in 2020 for 20-64 years age group, the target set by Romania based on the European strategy is set on the priority of implementing the measures focused on removing the constraints in the way of employment growth, that would improve labor market functioning, facilitating the reintegration of unemployed into the labor market, the quality increase of employment of residents in the rural areas, young people and women. But insufficient financial resources and the responsible national priority orientation towards quantitative aspects of the public budget do not seem to be the best solutions for solving the complex social problems in the current context.

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Approaches of the Bank Loan Portfolio within the Framework of the Financial Crisis

Bogdan Florin Filip[1]

Abstract: In this paper, the author proposes himself, first, to define, in his view, and to outline the content of " bank loan portfolio", starting from the requirements of its efficient management, considering that the proper use of the concept favours the treatment of related issues, both in theoretical and, especially, in banking practice, for which, there are invoked approaches of this expression cited in other works in the foreign and Romanian scientific literature. Furthermore, it is argued the need and the possibility of the applicative approaches to banks' loan portfolios, in terms of quantitative dimensions, but especially from qualitative perspective, through their structuring on types of loans currently in progress. In this respect, there are processed and interpreted data that characterize the formation and administration of loan portfolios of commercial banks in Romania and in other European countries, resulting findings, assessments and conclusions, having resonances in the theory and practice of banking.

Keywords: lending activity; financial resources; domestic credit; governmental loans; nonperforming loans

JEL classification: G01; G21; H63

1 Introduction

Lending activities performed, in principle, by commercial banks imply manifesting of credit relationships, between banks, in the position of creditors, which are granting money amounts as loans, on one hand, and customers of them (legal entities or individuals), as beneficiaries of the borrowed money, on the other hand, based on some specific contracts, assumed by both parties. Naturally, this requires the presence and concurrent conduct of a multitude of credit reports based on contracts, between the lending banks and the debtor clients, including a great variety of specific elements, conditions, impact factors and multiple effects.

Therefore, each of the loans granted by a bank has significant distinctive elements in carrying out the lending processes, banks accumulating claims, which are reflected within loan portfolios of different sizes, with complex structures, involving, at the same time, a differentiated "exposure" of each one to the credit risk.

2 Theoretical Approaches

Like other concepts, bank loan portfolio is less approached on theoretical plan, but is used in practice, with various meanings, aiming the its constitutive elements, as a whole or only some of them, starting, most times, from context in which this expression is invoked, both in the scientific literature and in the normative documents. So, for example, in foreign literature, the loan portfolio is conceived as expression of “loans that have been made or bought and are being held for repayment[…] as major asset of banks and other lending institutions” (Scott, 2003). Likewise, in other sources it is considered that, on a general level, the loan portfolio consists in “the loans (in the sense of debt – our comment) that a lender or a buyer of loans is owed,[…] listed as an asset on the lender's or investor's balance

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sheet (Farlex, 2011), but also by "the total of all loans (claims receivable) held by a bank or finance company on any given day (Business Dictionary, 2012).

The same concept is approached in our scientific literature, most time, without explicitly outlining its meanings. Thus, the expression of loan portfolio is invoked, for example, in the context of its reporting on some elements specific for the banking management, such as calculating of some credit risk indicators or analyzing banks' activity etc. It is stated thus, that "a special problem for banks is the loan portfolio analysis, taking into account the life of each loan, since its request until its effective reimbursement" (Trenca, 2003, p. 169) and that "in the moment of granting the loans, the loan portfolio is founded" (Ungurean, 2001, p.75). Such assessments print, implicitly, on this concept, also the meaning of ensemble of the ongoing loans granted by a bank to its clients.

In another work, there are made references on the usefulness of some indicators which are characterizing the bank lending activity, including in their name expressions such as "the degree of covering losses from loan portfolio out of the net profit" (Hoanţă, 2001, p. 127) as well as on the "theory of anticipated revenue", which "considers the loan portfolios as liquidity source […] because the loan portfolio provides the bank a continuous flow of funds" (Hoanţă, 2001, p. 225).

Similarly, regulations regarding this area state that "the banks should categorize their loan portfolio, according to the methodology […] twice a year […]"(BNR, 1994, Norma 3), including only the loans granted in the private sector, for companies, individuals, other credit institutions etc.

Also, it must be noted the use, within the same framework, of the notion of banks' exposure from granted loans, given a classification of it, similar to that on their loan portfolios. In this regard, subsequent amendments to this regulations, no longer use the portfolio term, but they concern the exposure, not only for the loans effectively granted, but also by considering the engagements assumed by the banks, likely to be materialized later, generating similar risks as the ongoing loans. We appreciate that, the two concepts have, however, distinct meanings, although they aim, at a large extent, aspects of whose content interferes in the bank lending activity. Thus, it may be recognized that, in principle, the loan portfolio of a bank means, at a given moment, all loans granted by that bank to its customers and ongoing, according to some documents such as credit contracts. In comparison, the exposure of the creditor banks aims, directly, the measurement of the risks assumed by each bank, by granting loans to various clients, under distinctive conditions of obtaining, use and reimbursement of them, for which there are taken also measures regarding the bank prudence area.

It is clear, however, that the proportions of the exposure to the credit risk, for a bank or another, are determined by the quantitative and, especially, qualitative dimensions of the loans composing the loan portfolio of each bank. Though, from this perspective, the loan portfolio must be approached, not only as global amount of loans, but also, in particular, as structure based on the purposes of the granted loans, taking into account impact factors, specific both on the loan's purpose and on the client who becomes debtor of the bank.

At the same time, it can be seen that the quantitative dimensions of the bank loan portfolio evolves under the incidence of the manifestation of the demand and the supply of loan capital, in interaction with changes occurring in the real and monetary market, but also under the influence of the promoted monetary and credit policies, in time and space. In this context, is included also the presence of a specific correlation within the running of bank lending process, that between the formation or accumulation at banks disposal of financial resources, on one hand, and their redeployment within the bank lending relationships, on the other hand. Accordingly, it occurs between the total usable credit resources and the total volume of loans granted to all customers, at a time (or within a specified time period).

At the macroeconomic level, considering the two terms on global dimensions, such a correlation can be summarized as follows:

Equation 1 The correlation between banks' credit resources and banks' granted loans

$$\sum R_{cb} = \sum L_{gb}$$

where: $\sum R_{cb}$ - banks' credit resources; $\sum L_{gb}$ - banks' granted loans

In turn, however, the total amount of usable resources for lending, at the level of the creditor banks, is constituted, in principle, from their own liquidities and, especially, from those attracted to their disposal from their rightful owners (individuals and legal entities). These resources correspond to cash availabilities, representing a part of the money supply put into circulation, at some time. But, to them there can be added also resources resulted from new monetary issues that are intertwined with bank lending within the context of refinancing commercial banks by the central bank, giving expression also to the fulfilment of a specific function of the bank lending. However, the amount of credit resources created by new monetary issues, primarily conditioned by the increase of the volume of goods and services transactions and implicitly of GDP, may be amplified under the impact of implementing some expansionary monetary policies. Such policies are promoted often within the framework of economic and financial crises, to support the growth or revival of the real economy, confronted with the lack of liquidities necessary for the production and trade of goods and services.

It is also of interest the fact that a significant part of the lending resources can be used for lending also by non-banking entities, including by direct credit relationships between persons which offer available money amounts and others requiring loans, being distinguished, in this regard, other forms of loans, such is the bond loan performed on stock exchanges. Consequently, the size of bank loan portfolios are influenced also by the extent to which lending resources are used by non-bank lenders, with the effect of reducing the part usable on commercial banks level for issuing new loans, situation that can be expressed synthetically by the following formula:

Equation 2 The banks' credit resources formula

$$\sum R_{cb} = \sum R_{cm} - \sum R_{cn}$$

in which: ΣR_{cb} - banks' credit resources; ΣR_{cm} - macro level credit resources; ΣR_{cn} - non-banking entities' credit resources

The approach from the qualitative perspective of the bank loan portfolios, aims primarily their structural components, starting with their creation and following the evolutions registered by them, because they are marking deeply the quality of the each bank activity and directly the lending one. In principle, the structure of the loan portfolio highlights many aspects that characterize the bank lending relationships with the borrowers, reported to the fulfilment of the contractual obligations. In this respect, a particular importance is given to the destinations of the borrowed amounts, reported to the final result of the actions or objectives financed and the way of foundation of lending decisions, starting from customer creditworthiness analysis, etc.

In the same context, it is to be noted that, in the case of the bank loans for the real economy, credit processes are intertwined and interrelated with the ones of production of added value, respectively of production, distribution, circulation and consumption of GDP. They are reflected in new goods and services whose value size interact with those regarding the increase of money supply, including with the size of credit resources and of bank loan portfolios.

On the other hand, it appears that, although bank lending emerged in direct connection with the development of material activities (characteristic for the real economy), it included, further, more and more intangible activities. Among the latter, an increasingly important place was gained, along the way, by the financing through bank loans of public, unproductive, activities, in which, most time, bank loans cover expenses reflected in the state budget deficit. Or, in this case, bank lending interacts, usually, with the processes of final consumption, which does not ensure any recovery of the financial resources that were spent. This makes the completion of the bank lending processes, itself, by reimbursements of the loans and related interest payments, to depend on the redistributions of financial resources, corresponding to value created in material activities.

From the perspective of bank loan portfolio significance, it is interesting to note also the fact that, both on the theoretical and applicative level, loans granted to entities engaged in such activities, especially in the public sector, are considered risk-free and banks confirmed in recent years, a trend for increasing these investments, they becoming more attractive, particularly in times of recession or economic and financial crisis. Moreover, starting from the considerations regarding the credit risk existence, it appears that such loans, granted mostly to governments, named also “governmental”, are not treated like those granted to the private sector, within bank loan portfolios. Therefore, by the way of approach, the content of the loan portfolio does not include these “governmental” loans, which are presented separately as “portfolio of state bonds and other negotiable bonds” (Hoanţă, 2001). However, the realities faced by bank lending, especially in the current sovereign debt crisis conditions, highlight the presence of a real risk also in the case of loans for public entities, respectively to state, they implying also potential losses for the creditor banks and justifying their treatment within bank loan portfolios, among those put in the private sector. The most eloquent case is that of Greece, for which the commercial banks, as private creditors, are put in the position to give up claims related to the loans granted by them to the Greek state, bearing themselves, thus, losses of tens of billions of Euros, which affect very much their financial status .

Furthermore, it is worth mentioning that by the bank lending to public activities it appears also a transfer of (available) financial resources from the private sector towards the public one, to finance, usually, unproductive expenditures, a phenomenon known in the scientific literature as "crowding out" (Dornbusch & Fischer & Startz, 2008), whose mode of expression may be questionable.

Therefore, we consider that the bank loan portfolio must be defined and approached as a whole of the loans granted by banks and not yet reimbursed by the customers, at a time, admitting that its structure includes all ongoing loans, contracted with customers belonging both to the private sector, and the public one (government).

According to the above approach, it can be accepted that a global dimension (considered on macro level) of the bank loan portfolios corresponds to the totality of the loans granted by all commercial banks operating in countries (e.g. Romania). This dimension has correspondence in an indicator of banking activity, called "domestic credit" (National Bank of Romania, 2012), which is structured, in its turn, on two components, representing the sum of the bank loans granted to private entities, respectively the sum of the bank loans granted to public entities (governmental).

3 Data Analysis and Interpretation

In relation to the considerations set out and the practice in Romania, it appears revealing for us a first approach to bank loan portfolio, targeting the totality of the portfolios held by commercial banks, having correspondent with the global and structural dimensions of the "domestic credit", respectively with the loans granted to private entities, on one hand, and the public (non-governmental type), on the other hand, in the period 2006 - 2011, according to data presented in Table 1.

Table 1 Dimensions of bank loan portfolios, expressed by domestic credit and its components, in Romania

- in millions Lei -

Crt. No.	Period	Total domestic bank loans *	out of which: Loans granted to private entities (non -governmental)		Loans granted to public entities (governmental)	
			Amounts	(%)	Amounts	(%)
1	2006	95.924	92.378	96,30	3.546	3,70
2	2007	157.751	148.180	93,93	9.571	6,07
3	2008	215.261	198.056	92,01	17.205	7,99
4	2009	246.698	199.887	81,02	46.811	18,98
5	2010	270.668	209.293	77,32	61.375	22,68
6	2011	292.849	223.034	76,16	69.815	23,84

* does not include loans for non-resident customers; data represent outstanding balances at the end of the year

Source: National Bank of Romania, Monthly Bulletin December 2011, p.34-35. Web page. Retrieved from http://www.bnro.ro/Publicatii-periodice -204.aspx

Although the data in Table 1 are outstanding balances at the end of those years for the granted and ongoing loans, assuming relatively different levels during each year, they highlight a trend of strong growth, with large jumps in 2007 and 2008, in which there has been registered also significant economic growth. But, taking into account also the structuring on the two components, we remark major differentiations of the size of loans granted to private entities, generically named “non-governmental credit”, to those granted to public entities, called "governmental credit".

Likewise, it results that there has been registered continuous and consistent growth of the loans granted by banks to private persons, especially in the years of economic growth, but the increases are much higher for the debtors that are government type entities and especially in the years with crisis. Likewise, it requires observation also the finding that, over the period considered, the shares in the overall portfolio of the first component decreased (from 96.30% to 76.16%), but those for the second component have amplified much (from 3.70% to 23.84%).

The mutations occurred, especially in the structure of bank loan portfolios highlight, strongly, the impact of the manifestation of the financial crisis, this generating reductions in the activities specific to the real economy, and implicitly, of the loans contracted by the private economical entities, simultaneously with the increase of financing of government entities by banks, primarily, of the increased public deficits. In this respect, it is significant the massive growth of the volume of bank loans granted, especially to the government, whose share increased from less than 4% to almost 24% of total bank loans volume, which is, basically, an undesirable phenomenon. In particular, it appears irrational for us, the situation in 2007 and 2008, when there were granted and used huge loans to finance larger unnatural deficits under conditions of maximum economic growth in Romania.

In the context of current financial crisis, the bank loan portfolio analysis, in terms of quality, based on their structure are intertwined (up to a possible substitution) with the one of the exposure from banks' loans (with interest), granted and not yet reimbursed by the debtor customers. In this respect, we consider that some overall assessments can be obtained by reference to the structuring of bank loans, first of all, in current and past due loans, and loans in lei and in foreign currency. Under these aspects, can be enlightening the analysis of data on loans granted by the banks from Romania, to resident and non-resident customers from the private sector (non-governmental),in the period 2007 - 2011, presented in Table 2.

Table 2 The general dynamics and structure of bank loans (final balance) granted to non-governmental customers

- in millions Lei and as percentage -

Crt. No.	Period / Indicators	2006		2007		2008		2009		2010		2011	
		amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
1	Loans in Lei**	49.083	100	67.800	100	83.746	100	79.788	100	77.456	100	81.822	100
2	current loans in Lei	48.805	99,43	67.038	98,88	81.934	97,84	75.323	94,40	69.853	90,18	72.525	88,64
3	overdue loans in Lei*	278	0,57	762	1,12	1.812	2,16	4.465	5,60	7.602	9,82	9.297	11,36
4	Loans in foreign currency**	43.797	100	81.461	100	115.361	100	121.405	100	133.391	100	143.340	100
5	current loans in foreign currency	43.690	99,76	81.131	99,59	114.372	99,14	117.713	96,96	124.839	93,59	131.307	91,61
6	overdue loans in foreign currency*	107	0,24	330	0,41	988	0,86	3.692	3,04	8.552	6,41	12.033	8,39

* overdue loans refer only to loans' outstanding and do not include off-balance sheet positions.
** includes loans granted to resident and non-resident customers

Source: National Bank of Romania, Loans and deposits in territorial profile. Web page. Retrieved from http://www.bnro.ro/Credite-si-depozite-in-profil-teritorial-3171.aspx

According to data of Table 2, it results that , regarding the overdue loans in lei, their share increased, year after year, starting with 2009, reaching to over 11% in 2011, meaning an increase of over 10 times compared to 2007 and nearly 20 times compared to 2006. By comparison, out of the loans in foreign currency, the overdue ones have registered lower proportions, with smaller weights, but have still been rising, from 0.24% in 2006 to 8.39% in 2011, meaning about 35 times to 2007.

Such mutations lead to the appreciation that the orientation towards foreign currency loans is a significantly more risky choice, both for the customers, by affecting their reimbursement capacity (under the impact of "currency risk" factor), and for banks, by the stronger degradation of the bank loan portfolio quality, involving also higher costs.

Also, from the perspective of loan portfolio quality, and under the incidence of financial crisis, there are relevant also, the data in Table 3, regarding the gross exposure of banks in Romania.

Table 3 Gross Exposure (final balance) of banks* by category of loans (with interest) for non-bank customers

- in billion Lei and as percentage -

Crt. No.	Period / Indicator	2006		2007		2008		2009		2010		2011	
		amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
1	Total granted loans (out of which:)	89.335	100	145.092	100	192.479	100	192.790	100	205.658	100	219.450	100
2	Standard Loans	46.378	51,92	67.360	46,43	118.629	61,63	103.268	53,57	96.456	46,90	101.609	46,30
3	Under surveillance Loans	35.861	40,14	63.607	43,84	47.370	24,61	43.156	22,38	44.216	21,50	42.821	19,51
4	Substandard loans	4.585	5,13	8.315	5,73	13.906	7,22	16.890	8,76	22.183	10,79	23.936	10,91

5	Doubtful loans	938	1,05	2.075	1,43	3.993	2,07	6.637	3,44	9.091	4,42	10.209	4,65
6	Loss loans	1.573	1,76	3.735	2,57	8.581	4,46	22.839	11,85	33.712	16,39	40.875	18,63

* Romanian legal entities

Source: National Bank of Romania, Monthly Bulletins, December 2006-2011. Web page. Retrieved from [http://www.bnro.ro/Publicatii-periodice -204.aspx](http://www.bnro.ro/Publicatii-periodice-204.aspx)

According to data from Table 3, in the boom years (2007-2008), it has substantially increased the volume of loans granted by the banks in Romania, especially to companies and population (over 62% in 2007 compared to 2006 and over 32% in 2008 compared to 2007), but in subsequent years, growth was much lower. At the same time, it is obvious a tendency of deterioration of the quality of bank loan portfolios, which has worsened starting from 2009, reflected in significant increases in weights of the categories "loss", "doubtful" and "substandard". These, together, have increased from 7.94% in 2006 and 9.73% in 2007 to over 34%, of the total exposure of banks, in 2011, and only the weight of the loans considered “loss” by the banks in Romania, represented, in 2011, about 19% of the total.

The mitigation of private sector (companies and population) credit growth and the degradation of the loan portfolio quality during the period 2008 - 2011, expressed by the large proportions of nonperforming bank loans, occurred under the impact of the financial crisis manifestation, on international level. Those phenomena have multiple negative implications on the activity of commercial banks, through the additional costs with the provisions, increased uncertainty to the applicants for new loans, etc.

There become, thus, of great interest the evolutions registered by the nonperforming loans (including the loans upon which the debtor has not made its scheduled payments for at least 90 days, or according the regulations are in default or close to default), in European countries, and for this purpose are useful the data in the table below:

Table 4. The volume of non-performing loans, in some European countries, and their dynamics*

- billion EURO -

Period / Country	2008	2009	2010*	Increase 2008-2009	Increase 2009-2010
Germany	142	210	225	48%	7%
United Kingdom	107	155	175	45%	13%
Spain	75	93	103	24%	11%
Italy	42	59	76	40%	29%
Ireland	15	88	109	487%	24%
Subtotal	*381*	*605*	*688*	*59%*	*14%*
Greece	12	20	24	67%	20%
Russia	1	17	19	1600%	12%
Poland	6	12	16	100%	33%
Ukraine	2	6	8	200%	33%
Czech Republic	3	4	5	33%	25%
Romania	1	3	5	200%	67%
Hungary	2	3	5	50%	67%
Turkey	8	11	11	38%	0%
Subtotal	*35*	*76*	*112*	*126%*	*47%*
Total	*416*	*681*	*781*	*64%*	*15%*

* values relate in most cases, to the existing nonperforming loans at the end of second and third quarters of 2010

Source: PriceWaterhouseCoopers, European outlook for non core and non performing loan portfolios. Debating Deleverage, Issue 3, April 2011. Web page. Retrieved from http://www.pwc.com/cy/en/press-releases/2011/assets/Debating-Deleverage.pdf

The non-performing loans (NPL) category reflected in Table 4 is the expression of the deeper deterioration of bank loan portfolios quality, in terms of time delay regarding the scheduled payment obligations of debtors, blocking also part of banks' lending resources. In relation to those data, the volume of these loans appears to be higher in developed countries, which is explained primarily by the large size of bank loan portfolios, compared to the situation of other countries. Even more revealing is, however, the dynamics of these loans, expressed both in absolute amount and as percentage of growth in the years considered. Thus, it appears that 2009 year has marked substantial increases in the volume of NPL in all countries under considerations, occurring on the background of the deepening of the financial crisis, the largest ones being recorded in Russia, Ireland, Ukraine and Romania. Later, however, under the effect of some emergency measures, taken by banks to preserve the quality of loan portfolios, and of the involvement of the states, to protect national economies, the trend of growth slowed. Thus, although the data in the table, related to 2010, do not regard the whole year, is shall be admitted that these increases in NPL are significantly lower than the previous year.

On the other hand, it can be noticed that in developed countries, growth rates were significantly lower than those of Central and European countries, due to greater weakness of the latter ones, but also because of some vulnerabilities of the banking systems.

It resulted, therefore, the need to put more emphasis on the measures for recovery of the economies, but also of the banks' loan portfolios, and also on much exigent selection of bank customers, in relation to their ability to obtain stable and sufficient income for accessing and reimbursing of the bank loans.

4 Final Conclusions

Complementary to the findings, assessments, conclusions and suggestions presented more detailed throughout the paper, our research permits also outlining of some ideas aiming implications of the constitution and management manner of the loan portfolios of banks, in particular, respectively of that bank lending, in general. From this perspective, we consider that the options on structuring and managing portfolios of loans should be based on the realities which characterize the running of the targeted economic and financial processes, both within the real economy and in the sphere of non-added value activities, respectively of the public unproductive ones. Thereby, it should be admitted also the possibility of manifestation of the credit risk also in the case of granting of bank loans to the government (state), banks following to treat them as elements of credit portfolios, including in terms of assessing exposures to risk.

On the other hand, there are justified the approach and the differentiated treatment in granting loans composing the banks' portfolios, depending to the particularities regarding the lending activities' finality, the ability of the customers to guarantee the fulfilment of their payment obligations for their loans etc., to prevent their entry into categories with high risk of default, respectively that of non-performing loans.

Of real interest to us is the concern for creation, through appropriate banking regulations, of the necessary premises for balancing the conditions for customers to access loans in domestic currency or in foreign currencies, given the comparable advantages and disadvantages offered, but also the negative impact of major growth of the non-performing loans category, outlined in the current economic and financial crisis.

Also, we consider necessary to continue and further research on the implications of the way of formation and structuring of bank loan portfolio, through the destinations given by banks to their lending resources, and, especially, to those resulting from the refinancing of commercial banks to the central bank.

In this respect, we consider at least questionable the present application of banking techniques of reverse repo or repo type, respectively those based on the purchase of government securities by the banks, which could lead to a money issue unsupported by a corresponding increase in GDP, or signify quite a diversionary pathway of financing public through monetization of public deficits, which would conflict with the existing regulations and scientific approaches in the area of reference.

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REALITIES AND PERSPECTIVES

The Financial Market of the Cross and Up-Selling Insurers from Romania

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Abstract: The biggest threat for the worldwide financial system is the recession at global level, which would have a major impact on the insurance industry. The differences between the results of European companies during the crisis, had a close connection with the aggressive or defensive investment strategies. Although the bank assurance agreements exist and they are developing further, the partnerships of this type didn't have the expected success in Romania, so far. Once with the market penetration from Romania of some insurers of European size, more specialized companies have launched bank assurance partnerships with banks, especially in the view of distribution of life insurances, and more recently, of the promoting the package of current account, products of savings – credit in the housing domain, pension funds, credits for small companies, mortgages and the one of personal needs. The success of this type of sale is still to come and put in doubt, at this point, the efficiency of promoting the banking products by insurers.

Keywords: insurers; banks; bank assurance partnerships; cross-selling; up-selling

JEL Classification: G2

1. Introduction

The overall economy and industry of insurances if found in a relation of mutual influence, bidirectional, a negative or positive evolution of one of them, having effect on the other (Prof. Fuat ERDAL, Director, The Insurance Training Center, IMC – The International Insurance Mediation Conference, Istanbul, 2010). An increases with 1% of the subscription made by the insurance companies has as effect, according to the studies of Prof Erdal, a GDP growth of 0,5%. Also, an additional of 1% in the GDP evolution is reflected in an increase of 1, 5 – 2,5% of subscription of the profile companies.

The concept of bank assurance marked a change of course within the financial sector, the bank assurance services becoming a tool increasingly used in the distribution of financial protection through insurance. According to a study[4], made in 2008 by Swiss Re, Europe is present at the highest level of penetration of the bank assurance segment, at the opposite pole being the North American continent, as a result of more restrictive regulations in the field.

The development of the Romanian banking system fits the globalization trend that has dominated the world economy in recent decades, especially as the financial services are one of the areas with the most intense expression of this phenomenon.

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[4] Media XPrimm – FIAR, 2009.

The trends of European financial system put its mark on the Romanian banking evolution through the fusion process and acquisitions, leading to the increase of customer's exigency and implicitly at the development of approximation strategy to the customer. The interface of banking system with the other segments of financial market and, even with the space of real economy imposed the apparition of new products and services[1], such as:

- Services concerning the capital market or in connection with it;
- Bank assurance products and related to the funds of pensions;
- Business advice and support.

"The main objective of the management relation with the customers (CRM) improvement is the quality of information about the customer in order to identify them, to adapt to their needs and efficient managing the customer relationship. Other objectives are: the improvement the customer service through continuous adaptation to its requirements; increase of the commercial efficiency through the achievement of cross selling and re-sales towards the customer segment that want such acquisitions; the increase of the profit rate through the proper management of the profit per customer, channel of distribution, branch, and product." (Deaconu 2008)

2. The Research Methodology

The research methodology consisted of collecting data by documenting on the Annual Reports of the most representative societies of insurance from Romania, Annual Reports of CSA (Insures Supervisory Commission), Insurance Yearbooks, magazines and specialty publications, Annual Reports of Banks, other documents and official publications, press and the achievement of a comparative result concerning the efficiency and leverage effect at the level of financial banking institutions after the implementation of the strategy and techniques of cross selling and up-selling.

3. Results and Discussion

Romania is found in the emerging market status (80% agents and 20% brokers), at the beginning of the diversification cycle of the distribution in insurances. For the development and fructification of the cross selling and up-selling opportunities, which derives from the diversification of the distribution channels especially on the segment of life insurances, Romania still has to overcome some thresholds, says Bernhard Kotango, Financial Services Partner, Oliver Wyman, member of the Marsh& McLennan group. Passing to the mature market stage or super mature assumes "*the increase up to 70% of the alternative channels and an increasingly accentuated control on the direct sales through brokers, bank assurance, contracts of affinity and platforms of distribution*".

However, it must be noted that, the financial crisis at the level of emergent markets represented an excellent opportunity to recover a part of the advance gained over time by the mature markets. The main challenge of the leaders from insurance is regaining the confidence of customers in the financial institutions. Capitalization of the offers from these institutions market and rapid identification of ways of selling to a potential client or company is based on a coherent communication strategy, generating sales, in order to achieve clear and measurable objectives. On the basis of each successful business is the number of clients and the fidelity degree of those. In drawing up the loyalty process, to obtain optimal results knowledge about consumer behavior are required. Upselling would not be complete if the sellers would not model sales strategies on current customer needs, trying to find the budget available to a particular customer.

[1] Faculty of Economics and Business Administration. *Mutatii in cadrul produselor si serviciilor bancare/Mutations in the products and banking services*. 2009.

In Romania the increased interest of the investors and the need to differentiate the banking products, had determined the insurance companies to initiate bank assurance type partnerships with banking institutions . Designing CRM as a workflow, customer →insurer→ customer → bank , allows tracking results of marketing campaigns and their impact on sales. Within CRM in the banking system sales techniques as: cross-selling, up-selling, product and bank services are promoted.

Table 1. Top 10 Insurance companies in 2010 and 2009

Nr.	Company	Subscribed gross primes						Market share (%)	
		2010		2009		Nominal evolution in Euro	Real evolution in Ron		
		mil. EUR	mil. RON	mil. EUR	mil. RON	%	%	2010	2009
1	Astra	263.81	1,110.63	191.03	809.47	38.10	29.33	13.26	9.13
2	Allianz-Tiriac	245.14	1,032.00	303.47	1,285.88	-19.22	-24.35	12.33	14.50
3	Omniasig	217.61	916.12	263.00	1,114.41	-17.26	-22.51	10.94	12.56
4	Groupama	191.43	805.91	210.63	892.50	-9.11	-14.89	9.63	10.06
5	Asirom	135.58	570.76	152.43	645.89	-11.06	-16.70	6.82	7.28
6	Bcr Insurances	135.55	570.63	135.95	576.06	-0.30	-6.63	6.82	6.49
7	ING Life Insurance	129.08	543.41	124.39	527.06	3.77	-2.82	6.49	5.94
8	Generali	104.09	438.21	119.64	506.95	-13.00	-18.52	5.23	5.72
9	UNIQA	102.71	432.39	117.22	496.70	-12.38	-17.94	5.16	5.60
10	BCR Life Insurance	73.01	307.35	60.21	255.13	21.25	13.55	3.67	2.88
Total Top 10		1,598.00	6,727.41	1,677,97	7,110.05	-4.77	-10.81	80.35	80.16
Total		1,988.89	8,373.05	8,869.75	8,869.75	-4.99	-11.02	100.00	100.00

Source: www.primm.ro

Regarding the evolution of companies and their hierarchy, the year 2010 brought two premieres. ASTRA Insurance became the market leader since the first quarter, keeping this position at the close of the year also. Another first is the entry in TOP 10 of BCR Life Insurance, such as two of the top 10 companies in the market are specialized in life insurance.

Romania is the fifth largest market for Vienna Insurance Group (VIG), after Austria, Czech Republic, Slovakia and Poland, in terms of subscriptions, and the fourth most profitable market, according to the 2010 report published by the Austrian group. Business in Romania related to the four member companies VIG - OMNIASIG, ASIROM, BCR Insurance and BCR Life Insurance - represented 6.1% of the total subscriptions of the group late last year, up slightly from 6% in 2009, in despite the reduction recorded in 2010. Concerning the life insurances, these registered an advance of 6.8%, mainly due to the bank assurance activity promoted by BCR Life Insurances, VIG occupying the second place on the profile market after the Dutch from ING, with a share of 24.3%.

BCR Insurances[1], one of the biggest companies on the local profile market, closed 2010 with a loss of 55 million lei(about13 million euro) of almost ten times higher than in 2008(provided in the years before 2008 had a profit), according to the company's annual report. In 2009 BCR Insurance generated

[1] BCR Insurances is one of the largest companies on the profile market, acquired by Vienna Insurance Group from the ERSTE group in 2008, together with BCR Life Insurances; the total value of the transaction was 244 million euro.

revenue from insurance premiums of 594.1 million lei (140.8 million) in increase with 7%, but the society has a prudent investment policy, mainly due to the important volume of payments regarding the reinsurance program. Aiming the achievement of profitability and ability to cover its liabilities to ensures (and not the market share), one of the aimed objectives by the BCR Insurances VIG SA is the improvement of collaboration with profitable intermediaries and strengthening the cross selling activity.

Within Vienna Insurance group it has been implemented through BCR Life Insurance a business model based on the distribution of life insurance through bank assurance under the cooperation agreement signed for a period of 15 years between the two entities. VIG agents in Romania promote BCR portfolio of products and services, including current account package, savings and loan products for housing, pension funds and loans to small businesses. The financial institution informs that in the next stage, financial consultants of VIG will include in the offer mortgage and personal loans.

Successful partnerships have been developed. As an example, UNIQA and Raiffeisen Bank Group support and complete each other within a "Preferential Partnership" in the bank assurance area.

Table 2. Gross subscribed premium and paid claims of UNIQA Romania during 2009

	Gross subscribed premiums	Claims paid
	RON	
Direct insurances:		
Civil liability insurances for vehicles	168,167.929	159,130.925
Land vehicles insurance (CASCO)	271,112.411	251,476.999
Fire and natural causes insurances	47,711.338	6,113.937
Other types of insurances	9,673.136	5,230.649
	496,664.814	412,952.510
Acceptation in reinsurance	36.824	760
Total	496,701.638	412,953.270

Source: Annual Report of UNIQA Romania 2010

The two classes of car insurances, respectively the Casco insurances and civil liability insurances for vehicles, have in 2010 a share of 74.64% in total gross subscribed premiums for the activity of general insurances, in decrease with 2.46 percentage points compared to the share from 2009.

Within the class of civil liability insurances for vehicles, the compulsory insurances of auto civil liability (RCA) generated gross subscribed premiums of 2,464.204.165 lei.

Table 3. Gross subscribed premiums on classes of General Insurances (Lei)

Gross subscribed premiums on classes of General Insurances(lei)			
Insurance class	**12/31/2009**	**12/31/2010**	**Nominal Increase (%)**
1 - accidents	62.929.358	57.830.376	-8,10%
2 - health	24.859.868	21.121.874	-15,04%
3 - land means of transport (Casco)	3.330.988.688	2.494.164.019	-25,12%
4 – railway means of transport	5.566.689	4.335.964	-22,11%
5 – air means of transport	21.262.074	20.540.173	-3,40%
6 – naval means of transport	30.160.705	23.777.836	-21,16%
7 – goods in transit	40.898.248	42.548.333	4,03%
8 - fire	934.738.928	971.181.606	3,90%
9 – claims to properties	163.733.629	129.575.466	-20,86%
10 – auto civil liability	2.252.065.897	2.505.704.913	11,26%
11 – civil liability for means of air transport	24.200.074	16.424.395	-32,13%
12 - civil liability for means of naval transport	10.593.396	14.870.542	40,38%
13 – general civil liability	135.785.975	145.811.936	7,38%
14 – credits	115.619.772	118.772.957	2,73%
15 - guarantees	29.973.022	66.427.629	121,62%
16 – financial losses	15.666.826	14.291.404	-8,78%
17 – juridical protection	6.591	6.267	-4,92%
18 – assistance of persons in difficulty	42.534.582	51.125.560	20,20%
TOTAL	7.241.584.322	6.698.511.250	-7,50%

Source: Insurance Supervisory Commission

Concerning the life insurance activity in terms of class structure, the gross subscribed premiums related to class 1 – traditional insurances and class 3 insurances related to investment funds – have been cumulative worth 1,625,423.460 lei, representing 97.57% of the total of subscribes of life insurances.

Table 4. Gross subscribed premiums on classes of life insurances

Insurance classes	30.12.2009	31.12.2010	Nominal increase %
Traditional	1.030.051.349	1.007.696.588	-2,17%
Marriage and birth	1.790.341	1.790.616	0,02%
Unit linked	565.774.631	617.726.872	9,18%
Permanente of health	318.293	234.317	-26.38%
Accidents	25.825.944	29.316.546	13,52%
Health	4.402.078	9.218.281	109,41%
Total	1.628.162.635	1.665.983.220	2,32%

Source: Insurance Supervisory Commission

4. Conclusions

The development of bank assurance sector on the retail markets with a low penetrating rate of insurances is a business opportunity with great potential and financial benefits both for banks, and for the insurances companies.

Approaching the bank assurance segment on the emergent market from Central and East Europe is relatively difficult, since the most companies from the region still putt more accents on commissions and immediate gains, then on the long term relation with the customers. These markets concentrate more on the class of non-life insurances, the bank assurance agreements for this segment not being profitable on long term for a banking entity, according to some specialists in the field from the West countries. The experiences of emergent markets have shown that the cross-selling process and distribution of banking products and insurances together, at package, don't bring always the expected results, the key of success in this domain being a good relation between all actors involved.

Some causes of the failure

- *Focusing on the products and not on the customer's needs* determine some sales agents to overcome the research stage of costumer's needs and to present them directly the offer, the customer hesitating to buy the products, convinced of its uselessness. In addition, most cases occur price objections;
- *Non-customized cross-selling* generates high costs, sales below expectations, customers bothered by the offers;
- *Following a predetermined script scenario*, by the sales agents at the beginning of careers, which becomes boring and generates a reluctant of potential customer, customer that share to other acquaintances the discussion, considering it as an abuse to its precious time;
- *The attempt to make cross-selling before purchasing by the customer the product*, which generates a reserved attitude concerning the product and objections, on the total price, which includes additional products of which the client is not interested at that time.

Some successful solutions

- Due to the fact that many opportunities of cross selling arise naturally, is necessary the *identification of customer's needs and offering some accessories related to the purchased base product*. This type of cross-selling can be a very effective tool for a small business.
- The importance given to timing through *promoting the right product at the right time* to encourage the clients to buy more, from an extensive range of products;
- *Providing of recommendations from professionals, experts or other customers, through the building of a flexible approach concerning the customer's servicing* and describing to him the way in which the supplementary products or services would complement the initial purchase and to further resolve the issue, is characteristic to some cross-selling techniques in chain and of the up-selling technique derived from the inducing fear (influencing the emotional factor) as the product/service will lose the durability, the client being immediately exposed to a choice that usually he cannot refuse;
- *Offering a range of prices*, on levels or offering a mix of price points, adapted to customer's wishes and his available financial potential to purchase the respective one;
- Products individualized accompanied by optimal counseling services through the *promotion of some package of products to promote family type,* adapted to the number of family members, their ages, requested products and available financial threshold;
- *Centralization on customer's feedback* to modify or launch new services and products on the market.

Given that the insurance market is closely connected to other markets and the evolution of business in other sectors, is very difficult advanced a more realistic forecast.The economic and social context is the one that will significantly influence the market, insurers having the difficult mission to:

- *maintain* a balance between the financial capacity and consumption priorities of the consumers;
- *educate* people about the usefulness of a life insurance in life of each one, by strengthening the people's confidence in the insurance services and offering services of a better quality;
- *work* more to develop and other business lines with high growth potential

"Changes in the social, economic and financial environment ,involve important challenges and opportunities for insurance companies The negative registered evolution by the insurance markets from several countries highlighted the necessity of a coherent and consistent approach, of regulation, which to offer real benefits to customers, profile industry and to society", said Mick McAteer, Director, The Financial Inclusion Center and President, European Commission Financial Services User Group.

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THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
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REALITIES AND PERSPECTIVES

Application of United Nations Economic Relations between Romania (1944-1947)

Stefan Gheorghe [1]

Abstract: Estimates of the Romanian authorities for the war effort of the Romanian economy brings up great material damage amounting to 3.7 billion dollars of which 1 billion to August 23, 1944, 1.2 billion by May 1945 and another 1.5 billion on behalf of the Convention Armistice. The onset of economic and financial obligations of Romania to the United Nations will be governed by the text of the armistice signed in Moscow on the delegates delayed the two sides in September 12, 1944 the new law regulating political and military option of the Romanian state. Although at first sight context political and military situation similar provisions imposing impression, however, the text of the Convention provides direct economic obligations of Romania.

Keywords: political and economic concession; monopoly position; economic and financial obligations; War effort

JEL Classifcation: Y4; Y70

Twentieth century was, undoubtedly, the most important military confrontation scene in history disputes between protagonists are generated by economic reasons, among others. Although the Great War 1914-1918 was consumed with enormous human and economic costs all Member peace that followed failed to settle the warring leading to the outbreak of World War II. Participation of Romania at the World War II recovery aimed Romanian provinces under foreign domination, however, the evolution of events forced Romanian authorities to take into consideration the positions of the belligerents. Economic and political state had suffered due to outbreak of conflicts both effective even if his participation was used later (for the first two years after the conflagration of 1914-1916 and neutrality in the second case all after about two years after release September 1939 - June 1941).

Such periods of so-called neutral, non-conflict, contrary to many opinions, not a good opportunity to restore or strengthen Romania's economic and military disorganization that and because international trade and trade with neutral boycott by the in conflict. Participation with Germany in the first part of the war until August 23, 1945 Romans brought economic losses after trade with Germany about 62.459.579.694 lei reaching over U.S. $ 446 million the course of 1938. It should be noted here and economic effort, material and human supported by the Romanian state in the first part of the campaign and that the war damage caused by the allies. In this context the Romanian economy was not ready to support the military campaign after August 23, 1944 in such a way as to bring Romania ranked fourth worldwide in terms of top states that have contributed to the defeat of Germany and stay in just about nine months of military campaign. The economic, social and political application of Romania in the period preceding the Armistice Agreement and the entry into force of the Treaty of Peace of 1947 has greatly contributed to delays in honoring obligations Romanian side which further contributed to lower state revenues and the population. For example we discussed the report prepared by the Finance Minister Petru Groza government on 14 December 1946. According to *him "... without external obligations Romania was the only country (probably n.n S. Gheorghe) who support his officers and*

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army after the war of effective ordinary income, the excess of government spending 16 months at around 227.8 billion lei ... the state arrears of 487 billion lei of which amounted to 57 billion lei regular budget for army-239 billion, CFR 63mld, allowances of bread - 76 billion, 50 billion lei private compensation ". On account of expenses incurred by Romania to implement the provisions of the Romanian state allocated peace truce between 1 aprilie1946-December 1946, amounts quite important that amounted to 27,775.8 billion lei. Add to these outstanding approximately 239.7 billion lei in goods and supplies that the Romanian side paid in not trimmed down rescheduling required by the Allied (Soviet) Control. The highest amounts had been spent by the Roman war indemnity (Article 11) that amounted to 1.242.5 billion lei, with carriage in the account and the transport of Soviet party (Article 10) 1.046.8 billion lei with refunds (Article 120 459 billion lei, and railway transport (art3) 275.7 billion lei. economic difficulties are reflected in the structure of budget expenditures is allocated 52% of the budget despite army restructuring, cleansing, staff reductions or its crossing of the criteria stipulated by the Treaty of Peace with the United Nations din1947. Estimates for the financial year 1947-1948 Roman said a total debt of 1,437,206,000 francs gold representing approximately 309.233kg. Compared to these amounts, according to official transcripts the Council of Ministers meeting of 14 December 1946 the Romanian state current services amounted to 171,704,000 Swiss francs, about 36,916 kg gold. Calculations were made Roman authorities in the idea that could change in favor of the future treaty provisions Peace with the United Nations, the Romanian demonstrating its good faith towards the proper application of the truce and the difficult conditions caused by economic war effort! their fears were fully justified because both Soviet incessant financial demands such as paying 44 million Swiss francs Romania and Germany in 1944 that the United Nations claiming them as theirs and also totaling approximately 60,000 kg of gold!

In other words if the German pay a portion of their debt with goods of other states Romania was forced to return to the United Nations, by merging, even if such property be it gold bullion and other goods, just because they found the Roman territory was forcibly assimilated and wrong to Article 13 of the Armistice Convention of 12 September 1944. statistics thus confirming fears that the Romanian side anticipate an increase in government spending and 1947cand year, would have come into force provisions of the Paris Peace Treaty. argument was that for the financial year 1938/1939 a total of 230.8 billion state spending accounted for only 16% for bugetar1945/1946 exercise expenses reached 31.4% of about 106.4 billion and for 1946/1947 amounted to 34.6% from a total of only 92 billion will be a major impediment as unfavorable financial consequences the budget by August 23, 1944 Romania will represent the German debt situation from the Romanian side as follows: According to calculations from 23 August 1944 1.300.000.000 trademarks and Germany due to Romania, the Romanian state due to its 1.056.900.000 DM. By giving the by the Romanian side on German debt to the Soviet Union, converted into dollars at par in 1938 Romania was elected with a financial deficit of 422.8 billion dollars!

Debut of Romanian economic and financial obligations to the United Nations will be regulated as the text Armistice Agreement signed in Moscow on the delegates delayed the two sides in September 12, 1944 the new law regulating political and military option of the Romanian state. Although at first glance the context of political and military situation similar provisions imposing impression, however, the text of the Convention provides Direct economic obligations of Romania (10 of 20 articles) while in the other four items are found but they are not so obvious:

Article 1 refers to the obligation to participate in Romania's war against Germany at least 12 divisions (14 in reality) the costs of this campaign is fully supported by the Romanian side.

Article 3 requires roman part of 'the "*Soviet forces and others allied facilities for their free movement on Romanian territory, in any direction ... by their own means of communications and their expense, on land, sea and air ".* Under Annex attached to this article explains that the Soviet High Command available during truce were targeted application all buildings and equipment Romanian military air and naval ports, piers, barracks, warehouses, aviation fields, means of communication, weather stations, which could be required for military needs. those objectives to be taught in the best condition and Staff for their maintenance, obviously at the expense of Roman!

Article 4 plans to restore the border between Romania and the USSR at the date of June 28, 1940, after annexation by this Northern Bukovina and Bessarabia! The potential economic, human and military these historical Romanian provinces, their income to be transferred Soviet Union contributing to significant decreases in Romanian budget later!

Article 5. bring up its Romanian obligation to ensure his own expense social, medical, food and all prisoners of war, the Soviets and allies and citizens interned or forcibly brought people displaced or refugees. The Romanian state should provide their own expense to transport in their own country.

Article 7 requires the Romanian party required to *"submit as trophies of war ... all of Germanos of its satellites on the Romanian territory, including fleet vessels Germany and its satellites are in Romanian waters "* which are in turn - if necessary, repaired and maintained at the expense of the Romanian state.

Article 9 also increased the financial obligations of the Romanian state in the sense that " *all vessels owned or belonged Nations United are in Romanian ports available regardless of who they are, the Romanian government ... wearing full material responsibility for damage or property damage mentioned above".*

Article 10 stipulated that Romania routinely make payments required by the High Command (Allied) Soviet for their performance and .... *"if necessary to ensure use Romanian territory, the industrial enterprises of public utility, fuel depots, oil, food and other materials or services in accord with instructions given by the High Command (Allied) Soviet ".* Attachment mention that the Romanian authorities will withdraw and redeem, according to the conditions and time limits imposed by the Soviets, all owned and issued coins in such currency withdrawn handing Romanian territory without payment the high the Allied (Soviet).

Article 11 is likely most notably regulating the compensation of war from the Soviet Union *"in the amount of 300 million U.S. dollars, payable during the six years, the catalog (petroliferous products, grain, wood, sea and river vessels Diever cars etc.. Romania will pay compensation for property losses caused in Romania celorlte allied countries and their nationals, during the war damages to be fixed at a later date ".* According therein for the payment of compensation arrangement was provided to the U.S. dollar parity to, that is $ 35 for an ounce of gold. Article 12 obliges the Romanian authorities to return, according to indications the *the High* Allied (Soviet) USSR, in good condition, *"all material values displaced from their territories during the war ..... such as equipment and plants, locomotives, railway cars, tractors, cars, monuments, museum values, etc.. "*

Article 13 restored all legal rights and interests of the United Nations and their nationals, the Romanian territory so as existed before the war, and forced the Romanian authorities to return the property in perfect good condition.

Estimates Romanian authorities for the war effort of the Romanian economy brings up great material damage amounting to 3.7 billion dollars of which 1 billion to August 23 1944 to 1.2 billion in May 1945 and another 1.5 billion on account of the armistice! However the Romanian authorities with the implementation of Convention provisions acknowledge that they will be interpreted abusive legal framework is much surpassed the Soviet Union. According to the report in question until 1945, the financial costs of these abuses Soviet interpretation of the convention text produced losses Romanian state as follows: 120 units with weapons and related ammunition Navy (in part related personnel), under Article 1 and valued at 75 billion, approximately 23,000 cars totaling about 60 billion with 500 locomotives out of the country valued at 30 billion or 18,000 private cars valued at 36 billion were not returned over the provisions of Article 3, German source material and goods worth 30 billion and the private property and 1,500 cars were functional rather than German ones, according to Articles 7 and 8, between 2-300 billion lei maintenance so the occupation troops after the war that was over provisions convention. 500 billion lei damages awarded Soviet army, all totaling almost 891 billion lei in computer equipment without putting Romanian divisions turned the front and was stopped by the Soviets.

Commission Romanian Armistice highlight and solutions for application as follows: to the approximately 600 billion lei required by the Soviet Interior Ministry account Article 12 advance a situation of drawing about 400 billion already made, the difference is to be phased over several years. In terms of deliveries both sides were in agreement with their staggering of 1945 when the Romanian already had paid $ 77 million of the 300 payable in equal installments 7 million over six years so that was predicted. amounts remaining thus amounted to about U.S. $ 223 million or, in lei around 892 billion. Soviet claims according to Article 11 amounted to 970 million lei, while the Romanian side claimed only 240 billion! terms and conditions imposed on Romania will aggravate the economic obligations of the Convention application Armistice Commission Allied (Soviet) Control imposing penalties of 5% term undelivered products which will significantly increase the quantum of the war debt of the Romanian state. Obviously penalties will also be applied to the total amount remaining abusive and not what was it was not delivered! To strengthen control over Romanian economy Soviet authorities in Bucharest government will require signing a trade agreement that was established as priorities, the development of sensitive exports (in terms concerning price and quantity) and protocol about cash I'm referred establishment of joint ventures in areas such as Sovromtransport, etc.. economic concessions were due exclusively to its Romanian political changes occurred in Bucharest in March 1945 and were probably a compensation for the restoration of the Romanian administration in Northern Transylvania! Moreover, once the war ended and peace negotiations Paris pinpoint political and economic conditions will be included in the text of the treaty of Peace, the Romanian state his dissatisfaction with the continued application of the truce conditions after the war ended in May 9, 1945 and even after the entry into force of the Treaty of Peace with the Allies in February 1947. Thus, 07.10.1947, Council of Ministers in Bucharest express their dissatisfaction about the distinctions imposed Romania the Peace Conference*: "The negotiations required for the text of the armistice is invalid ... shall be subject Treaty of Peace Treaty with Bulgaria ..... in the Bulgarian state is exempt from pay for maintenance of Soviet troops, for us not to do so "*. Not only Romanian authorities constantly monitor performance and obligations for the other countries occupied by the Red Army in all areas of weak economic and political pressure on him but the Romanian Diaspora.

Although economic efforts Romania's war, amounted to the enormous amount of 1,200,000,000 dollars in 1938 currency, a situation in a respectable fourth place in United Nations hierarchy that led the fight against Germany, co-belligerent status, rightfully deserve our country will be refused for political reasons known only to the Great Powers. Moreover, Romania's contribution was all the authorities and people endeavoring considerable economic and material support of the military campaign of the Romanian troops of all the states are in a situation somewhat similar to that of Romania, no one made an effort not so much military and economic defeat the German war machine.

No of military organizations, bands or any other association or military units have continued fighting after the return of UN weapons against Germany on August 23, analysts believing that economic and military effort of the Romanian state would have helped shorten the war in 200 days and this represented a significant savings for Allied resources and saving many lives.

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THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
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REALITIES AND PERSPECTIVES

The Application of Romanian-German Economic Agreements before and during the Second World War

Stefan Gheorghe[1]

Abstract: With a predominantly agrarian-industrial feature, Romanian economy represented only a small percentage of the world's economy, however, certain sectors particularly distinguished themselves. Increased trade between the two countries was considered to release the tension of the political and economic situation of the two countries, an equally profitable economic agreement being the best solution, on which both leaders of the two countries agreed from the start. We believe that this report, clearly unfavorable to the Romanian party, is not due exclusively to the Romanian-German economic agreement, as many experts believe, on the contrary, it was meant to be a means by which Germany was to achieve its own economic and political interests, but which, as demonstrated in practice, was considered obsolete even by the Germans, the frame of Romanian-German economic exchanges surpassing its stipulations.

Keywords: agrarian-industrial feature; economic agreement; political and economic concession; non-equivalent exchanges; monopoly position

JEL Classifcation: Y4; Y70

Romania's economic policy in the period immediately prior to the outbreak of the Second World War will be influenced by the evolution of the international situation which determined that special attention be given to the military sector and the reorientation of foreign trade, under the conditions of the disappearance of some traditional markets or toilsome transportation. At the end of the second decade of the interwar period, Romanian society was already characterized by the existence of numerous social, economic and political tensions overlapping an equally difficult international economic and political context. With a predominantly agrarian-industrial feature, Romanian economy represented only a small percentage of the world's economy, however, certain sectors particularly distinguished themselves: for instance, in 1937 the industry and mining produced more than one third of the national income, while agriculture and forestry already represented approximately 55% of national income (Constantinescu, 2000). Also, the actions of the Bucharest regime would result in increased state intervention in industrial activity and massive orders in the production sector, purchasing large quantities of cereal, acquiring loans in the national market, supervising foreign control and monitoring currency circulation (Scurtu, 1996). As a result of meetings between King Carol the II and German Chancellor Adolf Hitler, the Roman-German economic agreement of 23 March 1939 aimed at strengthening economic relations between Romania and Germany, in the context of profound changes affecting Europe and anticipating the outbreak of the Second World War.

Increased trade between the two countries was considered to release the tension of the political and economic situation of the two countries, an equally profitable economic agreement being the best solution, on which both leaders of the two countries agreed from the start. "Adapting our economy to the needs of Berlin" did not tally with the economic and political interests of the Romanian state however, and putting into practice such an agreement would prove even more damaging for Romania.

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It should be mentioned from the very start that the economic relations between the two countries had registered a constant developing rhythm almost permanently (except for the period between 1924-1929), Germany already being at the top of the preferences of Romanian companies both in the field of exports and, especially, that of imports against countries considered “preferable”, traditional partners or neighbors. To strengthen this assertion, one should bring to mind the existence of temporary economic agreements between the two countries, signed during the economic crisis, more precisely in 1930 and 1931 and that regulated the amount of goods and customs duties which the two economies had mutually undergo (Hilgruber, 2007).

The two economic agreements are confirmed by statistics and strengthened by the economic realities of this period. Thus, after the economic crisis of 1929-1933 wore out, the share of Romanian exports conferred the German state an absolutely respectable share of 22.7% of the total average of Romanian exports abroad for the period 1935-1939. Contrary to all expectations, the statistics show that the other important partners of Romania were already at a considerable distance from Germany, as follows: England 11.5%, Italy 8.9%, Austria 6.4% Greece 4.6%. (Muresan, 2003) Imports also illustrate the same preferences of Romanian companies for the same period, namely: Germany 25%, Czechoslovakia 15.6%, Austria 9.6%, England 8,55%, France 7.6%, Italy 6,1%, USA 4 % Belgium 3, 6%, Egypt 3.5%, etc. In 1935, a much more substantial economic agreement is established between the two parties, as a result of economic pressures expressed by the Third Reich against Romanian goods. Quotas are set regarding the products to be delivered by both parties, the agreement being characterized by the mutual desire to broaden bilateral economic relations (Buchet, 1999).

The negotiations between the Romanian and German parties started on February 12, 1939, but representatives of the two sides failed to come to an understanding, the claims of the German mission having been exaggerated, according to the Romanian side. Once the negotiations started, the German party requested the increasing of the share of German investments in Romanian petrochemical industry, providing large quantities of oil-bearing products, expanding of the rate of commercial exchanges between the two countries, reassessing the exchange rate of the national currency as against the German mark, the Reich's participation in the modernization of Romanian agriculture, etc., which would have "secured a prominent German influence on Romanian economy." (Simion, 1996).

With the invasion of Czechoslovakia by Nazi Germany and the breaking of the Munich Agreement, the international situation deteriorated and, after hectic discussions, on 23 March 1939, the economic Treaty between Romania and Germany was signed. Signing the agreement was a major political concession that the Romanian state was forced to do in exchange for guaranteeing the territory. The efficiency of the agreement concerning the increase of the volume of oil deliveries to Germany is enlightening: in 1940 - 447 000 tons, from 1940 to 1196.000 tons and in 1941 it reached 2,314,000. Other products mainly delivered to the German side were cereal, wheat, corn, horned cattle, pigs, eggs, etc.

Although concessions made to Germany would enable it to control Romanian economy subsequently, Romanian authorities would try to postpone its implementation without much success. In order to protect Romanian economy, authorities in Bucharest will initiate and sign somewhat similar economic agreements with political opponents of Germany, England and France, to counterbalance the effects of the economic agreement of March 23, 1939. Efforts to increase trade volume with the two *guarantor powers* would not be able to materialize than to a small extent because of the sharp deterioration of international relations and triggering armed hostilities by Germany in September 1939.

Direct consequences of signing the Romanian-German economic agreement would be reflected in the increase of Germany’s rate in Romania's foreign trade from the very the beginning. Thus, compared to 1938 when Germany’s rate represented 36.6% of imports and only 26.5% of exports, in 1940 imports from Germany already accounted for 50.9% of total, while exports would increase to 43.6% of total (Ciachir, 1996). The Treaty concerning the promotion of economic relations between the Kingdom of Romania and the United German Reich, published in the Official Journal of June 2, 1939, regulated economic exchanges between Romania and Germany as follows (Scurtu et al., 1982):

1. In view of the collaboration between the contracting parties, an economic plan extended over several years (five years as Germany's economic interests, n.n. S. George) would be drafted to complement the current regulation of Romanian-German bilateral trade, which would preserve as basic principle the balance of mutual economic relations.

According to the provisions stipulated in the Treaty, a priority would be the taking into account of the import requirements of the German economy and subsequently, the development opportunities of Romanian economy. Regarding the possibilities of increasing national industrial and agricultural production, or concerning Romania’s need for economic exchanges with other countries, the respective treaty defined them as complementary. Generous in provisions, which, theoretically, stimulated the economic growth and development of Romania, the agreement attributed powers to authorized institutions to put it into practice, that is: "governmental commissions established by Article 32 of the Treaty of Establishment, Commerce and Navigation of March 23, 1935 between the Romanian Royal Government and the German Reich ".

2. According to Articles 2 and 3 of the Treaty, both governments would mutually force each other to provide support to all organizations and companies performing trading activities and grant the authorization necessary for the execution of economic projects in question, according to law. This treaty was to be ratified by both parties within one month and, most importantly, was to be applied provisionally by both parties even before its ratification.

3. Regarding the payments to be made by Romania and Germany, they were to be governed by general provisions of the Roman-German Payments Agreement already in effect at that time. The payment methods between the two parties represent an essential component of that Treaty, as they would contribute to the amplification of its deficiencies and the accumulation of debt of Nazi Germany to the Kingdom of Romania. There is no doubt that the rhythm and amount of these sums would be another cause for dispute between the two parties and, especially, for discussions and debates between the leaders of the two countries on the occasion of repeated high-level meetings to be held during the war.

The worsening of the economic dependence of Romania to Germany would be achieved on the occasion of signing a new payment agreement between the two countries on December 4, 1940. Payment agreement to this document, responsible for making the payments were the German Clearing House in Berlin, for the sums German importers owed for goods delivered by Romania and the Romanian National Bank for amounts owed by Romanian importers for merchandise purchased from Germany. Obviously, Germany bought more goods from Romania than vice versa so the delays would compel Romania to pay for the products exported on the German market, which would contribute to accelerating inflation, the generalization of lack of products necessary for Romanian economy.

The further evolution of Romanian-German relations, or, more specifically, the Romanian economy wass intended to be unduly conditioned by the provisions of the 1939 Treaty. Without denying the importance of the treaty, we believe that changing the political spectrum along with the unwinding of hostilities during World War II should have been taken into account.

We also consider that the economic realities were already a fundamental premise for increasing trade volume between the two countries, Germany already being a top partner in Romania's foreign economic relations as demonstrated by economic statistics. However, Germany and the other countries of the Axis would be able to easily secure their monopoly position in Romanian exports, the percentage in 1941 being of 95.16%, in 1942 of 93.6%, in 1943 of 95.85 and in 1944 up to August 23 of 98.77%. It is also a fact that the humble attempts at maintaining relations with neutral states would be paralyzed by the Germans, who would constantly decline the admission of the transit of Romanian goods to these countries, even by threatening the Romanian party with a real economic war by establishing an economic blockade against Romania.

At that time, a first and pertinent analysis of the stipulations of the Romanian-German economic agreement was made by the illustrious Romanian economist, Virgil Madgearu. Provisions such as developing the emerging sectors of agriculture, forest exploitation, the German party’s deliveries of equipment and mining and oil technology, in the opinion of the Romanian scientist were thought to "fully harmonize with the trajectory of normal evolution of Romanian economy" (Madgeraru, 1995).

Although he does not agree with the vagueness of some provisions such as the collaboration on industrial land, the Romanian economist anticipates that "it is natural to predict that Germany will seek to strengthen the degree of complementarity of Romanian economy to its economy, which will involve some deviations and limitations of the process of industrialization that...are in agreement with the vital interests of a normal development of Romanian economy".

The economic treaty is put into effect, the forecast of the economists and Romanian authorities will be outdated. Through various means such as forcing Romania to deliver products at pre-war prices much inferior to global ones or approved by the Germans, by increasing the prices of German commodities delivered to Romania, unlike those for other partners of Germany, the German authorities themselves admitted it. Non-equivalent exchanges and the worsening of this situation would be one of the principal means of indebting Romania to the Third Reich.

Another way would be to arbitrarily increase the exchange of the mark against the Romanian currency and the payment system between the two countries. Serious damage would be registered by the Romanian party due to its obligation of supporting German troops on its territory, in the field of transport, primarily due to serving the German army, and because of unpaid taxes owed to the Romanian state, etc, Romania's total losses from trade with Germany reaching to about 62.459.579.694 lei until 23 August 1944, or over $ 446 million U.S. dollars, at the exchange rate in 1938. We believe that this report, clearly unfavorable to the Romanian party, is not due exclusively to the Romanian-German economic agreement, as many experts believe, on the contrary, it was meant to be a means by which Germany was to achieve its own economic and political interests, but which, as demonstrated in practice, was considered obsolete even by the Germans, the frame of Romanian-German economic exchanges surpassing its stipulations.

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REALITIES AND PERSPECTIVES

Implications of Fraud and Error Risks in the Enterprise Environment and Auditor's Work

Emil Horomnea[1], Florentin-Emil Tanasă[2]

Abstract: The objective of this study is to identify and analyze the main correlations and implications of fraud and error in the business environment and in the financial scandals occurred in the last decade. The approach envisages a synthesis and antithesis of the ideas found on this subject in the specialty literature, of the regulations issued by various international bodies. To achieve the established objectives, we used a constructive methodology to identify criticism, presentations and developed a speech with view to a more efficient and effective fraud and error risk management. The results of the study show that the major financial scandals and hence the global economic crisis are based largely on fraudulent maneuvers of significant proportions. By using "creative accounting" in fraud and error, famous companies have managed to distort reality for their performance and market position, misleading the users' perception. This study is a theoretical having implications for a future empirical study.The study contributes to auditing literature diversification in the field of risk of fraud and error. An additional perspective is gained by addressing the financial crisis and some famous bankruptcies by way of the financial auditors activity and the fraud and error risk.

Keywords: economic crisis; audit perspectives; toxic assets; financial statement; fraud

JEL Classification: M14; M41; M42; M48.

1 Introduction

The financial scandals that occurred in the last 100 years have slowly but surely contributed to a depreciation of confidence in the competence and the responsibility of auditors' activity. However, the audit activity has never experienced such a strong impairment of confidence in the capabilities and the professionalism of auditors, this decay being determined by the succession of bankruptcies and financial scandals that have hit some of the biggest corporations in the global economic specific past decade (Boța, 2009).

The bankruptcies of a series of large corporations that have occurred since 2001 (Enron, WorldCom, Qwest Communications, Parmalat) and the current financial scandals (Merrill Lynch, Satyam, Mardoff, Stanford Financial Group) strongly affected the corporate life bringing about a risk for investors to lose confidence in the assurance of professional accountants on the image fidelity offered by the financial statements of the audited companies. Such an example is the great financial scandal generated by Enron bankruptcy, with really disastrous consequences for the audit specialists, a definite evidence to this effect being the rapid dissolution of the audit company Arthur Andersen, member of the "Big Five" Group.

The amplitude of these negative phenomena that rocked the economies of certain highly developed countries, has generated more and more critics to the independence and competence of the external auditors to have failed in implementing the necessary audit procedures so as to identify the warning signals that could have prevented such events. On the other hand, there are more and more discussions

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about the real commitment to corporate responsibility and the efficiency of corporate governance mechanisms.

According to many researchers in the specialized literature (Fusaro & Gordon, 2002) the impact of such negative phenomena on the audit activities was a significant one, perpetuating the idea among auditors that they could lose credibility, carrying out an audit being perceived as an obligation imposed by the legal frame and not as a service that could add value to the companies, the investors' confidence in the reliability of audit reports being strongly affected, raising numerous questions on the real independence of the auditors in their work.

2 Concerns about the Financial Statement Fraud

Over the last decades, several cases of fraudulent financial reporting have shacken the capital markets. These frauds have a negative impact on the capital markets and erode the trust of investors. Fraudulent financial reporting may also have a devastating impact on the reputation of a company, often putting at risk even its existence.

Although it is generally accepted that the Sarbanes-Oxley Law and the integrated Risk Management Code improved the corporate governance and decreased the incidence of fraud, recent studies and surveys show that investors and managers continue to have concerns about financial statement fraud. For instance:

- The Association of Certified Fraud Examiners, "2010 Report to the Nation on Occupational Fraud and Abuse" found that financial statements fraud, while representing less than five percent of the cases of fraud in its report, was by far the most expensive, with an average loss of $ 1.7 million per incident;
- The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), in its report on 2010 (Fraud Report) analyzed a total of 347 cases of fraud caused by fraudulent financial reporting in 1998-2007, all cases being investigated by the U.S. Securities and Exchange Commission (SEC) and found out that the average dollar value of each case of fraud has increased three times from an average of 4 ,1 billion dollars, estimated in a study in 1999 to an average of $ 12 million in 2007. In addition, the average size of the company involved in the fraudulent financial reporting has increased nearly six times from $ 16 billion to $ 93 billion in total assets and from $ 13 billion to $ 72 billion, compared to the turnover;
- The KPMG study (Fraud Survey 2009), conducted by interviewing 204 executives of U.S. companies with annual revenues of $ 250 billion or more, revealed that 65 percent of the respondents believe that fraud will be a significant risk to their organizations next year, and more than one third of respondents identified fraudulent financial reporting as one of the greatest risks;
- fifty-six percent of the approximately 2100 business professionals interviewed during a study, "Deloitte Forensic Center Webcast" on reducing the risk of fraud, estimated that frauds in the financial statements will be discovered in 2011, as compared to last three years. Almost half of those surveyed (46 percent) indicated the recession as the main reason for this increase.

3 The Global Financial Crisis. Key-factors in Triggering the Crisis

The first signs of economic and financial crisis were felt in the United States during the summer of 2007, when financial institutions began to recognize that they were facing significant losses related to sub-prime loans (near-prime, non-prime, second chance Lending), known as involving a high risk. These events have determined the investors to get rid of the financial derivatives based on sub-prime mortgage system. At the same time, the American real estate system has experienced dramatic declines in the price of the real estate transactions that had been done.

Gradually, there was a cash crisis that has spread throughout the financial sector then materialized into bankruptcies, mergers, takeovers, acquisitions, nationalization of the major U.S. financial institutions.

BNP Paribas' shutting down two of its investment funds, claiming *market turmoil in the U.S. sub-prime loans*, and the takeover of the Countrywide Financial by the Bank of America opened the series of negative events that rocked the international financial world. Other financial mortgage institutions, including: Fannie Mac & Freddie Mac in the U.S. and Northern Rock and Bradford & Bingley in the UK, have become dependent on the financial support from government authorities.

The maximum intensity of turbulence on the international financial markets was felt during September-October 2008, when one of the largest investment banks in the United States of America, Lehman Brothers, went bankrupt, as a consequence of Federal Reserve's refusal to financially support it. The scale events that have affected both the economies of the developed countries and of the emergent countries were very well illustrated by (Peston, 2008) who stated: the global financial economy has not been lately subjected to such tests consisting in a mixture the fateful combinations of accidents and tests of confidence.

Figure 1. The mechanism of propagation of subprime loans

Source (Cerna, 2009)

There are many factors that led to this situation. According to (Dăianu, 2008), the determining factor was the severe cut in the interest rates by the Federal Reserve, as a result of the stock exchange crack of the late 1990s and after September 11, 2001, which stimulated great credit. The latter took place amid globalization of financial markets and the intensified widespread use of financial innovations / derivatives.

The BNR Governor refers to two types of causes, both macroeconomic and microeconomic in nature (Isărescu, 2009).The two types of causes intertwined in yielding the crisis. The deep cause of the financial crisis was the abundant liquidity created by the world's major central banks (FED, BOJ) and the willingness of oil and gas exporting countries to limit the currency appreciation. Also, there was an over-saturation of savings generated by the increasing integration into the global economy of some countries (China, South - Eastern Asia în general), with high rates of accumulation and also by the global redistribution of wealth and income to the hard goods exporters (oil, gas, etc..). The abundant liquidity and the over saturation with savings created available resources for investment, including sophisticated financial instruments, not easily understood by some investors. Against this background there have operated, as aggravating, also a series of microeconomic causes: the overly optimistic assessment by rating agencies of the derivative financial products, the increased international competition for deregulation (Isărescu, 2009).

Following an analysis of this crisis' causes in terms of accounting practices, we conclude that an element with a major contribution in the fast perpetuation of this credit crunch was the use in accounting, the concept of "fair value". The director of the Committee for International Accounting Standards Board, Sir David Tweedie, said in a report issued by the IASB (Q1/Q2, 2008) that the role of accounting is to reflect the facts and not to provide stability when there is none. Richard Sexton, manager at PricewaterhouseCoopers in the UK states that: accounting does not create reality, but it actually reflects it.

According to the International Financial Reporting Standards (IFRS), financial instruments are measured at their fair value. Determining this value involves a sufficiently liquid market in order to establish the price of financial instruments. One of the characteristics of the global financial crisis is the very significant decrease in liquidity on the market, leading to a significant depreciation of the derivatives. Volatility of the fair value could not always reflect real changes of the enterprise events and did not allow events to render the reality of transactions and of the financial position.

A report published by Association of Chartered Certified Accountants (ACCA, 2008) on the financial crisis has identified two major categories of determinants that led to the U.S. credit crisis started, namely:

- ***key factors:***
  - the failure of institutions to properly assess and manage the existent interconnections between inherent business risks the bonus and the incentives;
  - the failure of corporate governance (the interests of shareholders should be placed on the forefront);
  - errors in the risk identification and management process;
  - the weak influence or even a minimum output of risk management departments in banks;
  - weaknesses in financial reporting and regulatory systems..
- ***secondary factors:***
  - lack of a proper understanding by the management of the business models design, leading to poor managerial supervision;
  - the lack of rigorous oversight on the part of non-executive directors as a result of poor understanding of the complexity of business conducted;
  - human errors embodied in failures in assessing cultural influences and motivational factors such as rigidity in thinking and unwillingness to adapt to changes;
  - a high degree of complexity of the financial products, accompanied by poor training of managers across the risks associated with these products;
  - environment for running speculative transactions.

4 Enron

Founded in 1985 by the merger of two companies producing natural gas, Enron, in only 15 years time, has become one of the largest U.S. energy companies with a market value of over 70 billion dollars, with nearly 21,000 employees in over 40 countries. It holds 25% of the world's electricity and natural gas, launching in 1999 Enron Online, the largest index of e-business world.

The scandal began on October 16, 2001 when Enron, admitted for the first time, that they were facing financial difficulties and reported a quarterly loss of 618 billion dollars. Moreover, during the same period, Enron stated that due to an error in accounting, the net income was overstated by over a billion dollars. The share price crashed at once. The U.S. authorities were notified and the Securities and Exchange Commission (SEC-Securities and Exchange Commission) began an investigation on the partnerships and investments of the company. In December 2001, the corporation declared bankruptcy being placed under bankruptcy protection law, becoming the largest bankruptcy in U.S. history, "although a year before had announced a profit of over 100 billion dollars".

The corporate management had been showing for some years, financial statements that would hide the huge company debts and "swelled" profit, using "***creative accounting***". Skilling satirizes the accounting system "VVI", nicknaming it "the hypothetical future value". In order to maintain a high price for its shares, Enron invented high quarterly profits. Thus, if Enron was associated with another firm and together they could make 50 million dollars in 10 years, Enron claimed that those 50 billion represented current income (Horomnea, 2012). In addition to that, Enron used to create false off-shores in order to transfer the losses on them, out of the accounts.

Internal and external controls have not been able to ascertain the real situation that Enron was facing and detect the huge losses. The internal audit function was mostly formal, as it was not involved in the intricate and occult money transactions led by the Enron management and Arthur Andersen auditing company that had to validate correctly the financial statements, protected in fact the corporate image. Enron has created, in fact, an energy market that it bet on and manipulated. Its brokers have lost huge amounts from bad trades, and then covered their losses by not reporting them and by drawing up false profit reports, which raised further the share price. The corporation knowingly created a false energy crisis in California, which had never existed before, being responsible for the shutting down - for a long time – of over 50% of the power plants when the electricity prices increased nine times. The company would buy energy at a very low price and resold it to other regions at a much higher price.

Summarizing the data presented, we may asses that the main causes of the Enron scandal are:

- the legal and the regulatory system structure (primarily the applicable laws and regulations of U.S. Securities and Exchange Commission (SEC); the audit companies as Arthur Andersen, which provided consulting services and at the same time provided an audit report on the financial results of these activities of enterprise consulting, this being an obvious conflict of interests;
- a private company such as Enron, currently employs and pays the external auditors. This is a conflict of interests built around the legal system, because auditors are "encouraged" not to issue an adverse report to the company contracting the audit company;
- another conflict of interests lies in the fact that large corporations, such as Enron, are allowed to manage pension funds of their own employees.

The Enron bankruptcy, and other major financial scandals of the early 2000s, prompted reactions from governments which have initiated a series of legislative initiatives to protect investors. Consequently, new laws have been enacted: the Reform of Accounting for Public Companies and Investor Protection Act since 2002. These new regulations brought significant changes to accounting practices and the increased role played by the Securities and Exchange Commission (SEC), within which the Board of Supervisors of Public Companies Accounting was created and by the American Government over the financial reporting. This board has to establish new accounting standards, to investigate whether companies, the certified public accountants respectively, comply with the legal regulations (PCAOB, 2010).

According to the new regulations, the CFOs and the executives should consider more carefully the accuracy of financial statements, otherwise risking criminal punishments for covering voluntarily potential frauds or errors. Another important regulation is the separation of consulting and auditing activities in the case of audit companies so that conflicts of interest should be avoided.

5 Arthur Andersen

Arthur Anderson LLP (the current name) was founded in 1913 by Arthur Andersen and Clarence Delany, as a limited company in Chicago. Until the Enron scandal, that was involved in, the company was part of the "Big Five", along with other famous companies such as: PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young and KPMG, and has provided audit, tax consultancy and accounting services to major corporations.

Andersen has been a constant supporter of high quality standards in the accounting profession, in full compliance with a number of ethical principles in the company management. Over time, the Andersen company motto was "Think straight, talk straight". After the 1980s, most of the company revenues came from consulting activities, highly disproportionate as compared to the revenues from auditing, tax and accounting services, barely managing to resolve the conflict of interest, generated by carrying out simultaneous audits and accounting advice. The company was accused several times of having certified financial statements containing errors or frauds of certain companies such as: WorldCom, Enron, Sunbeam Products, Waste Management. On June 15, 2002, Andersen was accused of preventing justice from acting, by destructing essential documents in hardcopy and in electronic format, related to the Enron audit engagement. Andersen pleaded not guilty, pretending that the destruction of documents was part of the company's domestic politics. On August 31, 2001, the Securities and Exchange Commission officially declared the company out of business on the U.S. market. Although in 2005, the U.S. Supreme Court decided to change radically the verdict, claiming an error on the part of the jury, the company was no longer able to operate, since its reputation had been irreparably damaged and an essential element in the auditing activity is exactly the reputation.

6 Sarbanes-Oxley Law. The Governance and the Corporate Responsibility Law

Sarbanes-Oxley Act of 2002 was adopted in response to corporate scandals in the late 1990s and the early 2000s. The law was aimed at implementing significant reforms for the corporate governance structures and for the public supervision of audit companies. Many of its provisions were intended to raise the standard of corporate governance quality and reduce the risk of fraudulent financial reporting. Main regulations aimed at (CAQ, 2010):

- increasing the responsibility of the integrity officers in terms of accuracy and completeness of financial reporting and adds a public certification requirement of each periodic report filed with the SEC, including the financial statements. The financial and executive managers must certify that each such report is in accordance with the law and that the financial statements present a fair image of the financial position and performance;
- establishing criminal penalties for intentionally and knowingly certifying the financial statements containing errors and / or fraud;
- a compulsory requirement for an internal audit organization for American companies, which has to be verified by an external audit;
- establishing regulations on information management, with the scope of tracking workflows (initiation, authorization, processing, reporting significant business transactions) that occur in the company;
- prohibiting the companies providing auditing services to deliver other kinds of services to the client-entities;
- creation and implementation of control methods to prevent and detect fraud, as well as assigning responsibilities to people having this role;
- increasing the role of the audit committee and enhancing responsibility for supervising the company by external auditor.

7 Conclusions

During the recent decades, both internationally and nationally there was an increase in the number of companies that have entered into improper and even fraudulent financial combinations, thus becoming the protagonists of well-known financial scandals, with significant effects on the current or potential investors' confidence in the viability of the business.

An overview of these issues through the work of professional accountants, there may be noticed that every scandal produced in the recent decades has slowly but surely contributed to damaging the confidence in the competence and responsibility of auditors in conducting audits and not only. But it seems that the succession of bankruptcies and financial scandals, which is the result of unprofessional or even fraudulent behavior of top managers, which shook the economies of developed countries led to an unprecedented loss of confidence in the professionalism of auditors, but on the other hand it would be unfair to minimize the importance of the "added value" brought by their activity. Undoubtedly, one of business risks is represented by fraud, a phenomenon that executives and particularly audit committees have faced in time, which is manifested in many ways on organizations, with implications on the financial status, the reputation, and having also psychological and social implications. The financial losses due to fraud implications on business environment are significant. However, the total cost is immeasurable in terms of time, productivity, reputation, including customer relationships. How can the risk of fraud be managed efficiently and effectively within an organization is a major topic of concern for management, investors, internal auditors, external auditors, government leaders, regulating authorities and other stakeholders. In many cases, new laws and regulations around the world have forced organizations to consider more carefully this issue of real interest for the stakeholders involved in the entity development. The management statements, the very much publicized codes of ethics, the professional training are the necessary means to educate employees, third parties so that everyone has a role in the anti-fraud program.

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REALITIES AND PERSPECTIVES

Atypical Integration Process under the Global Crisis

Victor Romeo Ionescu[1]

Abstract: The paper is focused on the idea of a new approach on the integration process under the present global crisis. This is why the analyse tries to present „new" integration organisations which are made in order to face the new socio-economic challenges. The whole theoretical approach is based on the latest important specific researches in the world. A distinct part of the paper deals with a case study connected to BRIC. The main conclusion of the paper is not optimistic. The world economy is not able to face the crisis and the solutions have to be found at individual level. Moreover the world economy is close to a more destructive war: the economic war for survive.

Keywords: sectoral integration; regional integration; globalization; regional integration forecast

JEL Classification: R11; R12; R13.

1. Introduction

We cannot deny that humanity is on the verge of significant changes, unprecedented in its history. From the economic point of view, things are far from being put in a normal path. If in the second half of the twentieth century, humanity has been protected from large-scale military conflict, the first decade of the new millennium marked the onset of a devastating global war: the war for economic survival.

All states participate to the fierce battle in which any actions are allowed. The myth of the global economy, the global solutions and the adage "think globally, act locally" depend on fiction, nowadays.

The crisis generalised in 2008 was the breakpoint which demonstrated that globalisation was a world wrong approach. The idea of globalisation is based on one of the most important characteristic of the human being: the need to stay together in order to protect and to develop better. During the last two centuries, globalisation was used by a minority in order to lead the majority at global level.

Globalisation supported interesting concepts as "race to the bottom", which became a key element for the global disparities' increase.

The same globalisation succeeded in creating a theoretical battle between regionalism and globalisation. Globalisation needs instruments in order to generate, develop or destroy specific economic mechanisms. We are not able to imagine the existence of IMF, World Bank, WTO without conflicts, economic, social and political crisis. These international institutions were able to eliminate one of the basic elements of the economics: the impossibility to make experiences on people using the economic instruments! There are enough viable integration projects which are implemented under other criteria than geographical proximity and common interests. These projects cover the sectoral integration.

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2. Current Status of the Research Investigating

Under its economic approach, globalisation was used for the first time by Levitt Theodore in 1983. Nowadays, the global approach is the only one able to solve the great difficulties of the humanity: pollution, global warming, drastic reduction of the resources, terrorism, etc.

Some specialists studied the effect of the US trade deficit increase on the American companies, in order to identify the new challenges for the American economy after its adhering to NAFTA. Moreover, there are a lot of studies which support the idea that the US economy is not efficient under globalisation. Other opinion is that globalisation represents a global process of mixing and equalization for prices, goods, wages, interest rates and profits. The evolution of the globalisation was followed by an increase number of the international corporations which operate across the world economy.

Under this above approach, Bhagwati J. considers that the globalisation represents the integration of the national economies into an international economy with characteristic flows of: trade, FDI, short-term capital, people, labour and technology. Other papers challenge globalisation and talk about the negative effects of the regional blocks on labour (Bhagwati, 2004).

Stiglitz made a detailed scan of the process and the contemporary global economy perspectives (Stiglitz., 2006). The present global crisis is subject for Krugman's latest book. It analyses the economic crisis in Asia and Latin America and concludes that these crisis represent a warning for all. As diseases become resistant to antibiotics, the economic maladies that caused the Great Depression made their appearance again. Krugman shows how the failure to keep up, by regulation, the financial system increasingly out of control, pushed the United States and the world in its worst financial crisis since the 1930s. Moreover, he describes the measures required to limit the scale of the crisis and to restore the world economy afloat sliding into a deep recession Krugman, 2009).

The Romanian specialists have an important contribution to this research field. D. Daianu talks about the dynamic of the open market economy system. The book analyses the inner movement of the capitalism, the competition between paradigms, the rise and the fall of the "market fundamentalism", the role of the moral (ethical) in the economic life, the left (as a doctrine and political action) in post-communism, the relationship between globalization and the dynamics of capitalism, some aspects of the post-communist development in Romania and, last but not least, the roots and significance of the current financial (economic) crisis (Daianu, 2009). Bran&Ioan analyse the impact of the globalisation on the environment under the sustainable development approach, as a way of economic growth according with the environment protection (Bran & Ioan, 2009).

2011 was the year when Ritzer published his new approach about globalisation. The book covers 12 chapters, including „Negative global flows and processes", "Inequality" and the "Future of globalisation" (Ritzer, 2011).

3. Atypical Regional Integration Evolution

There are three major sectoral economic projects which are not supported by the geographic proximity. The first is Organisation of Petroleum Exporting Countries (OPEC) which was initiated in 1960, under a real international partnership. Its main goal is to protect the main interests of the members related to the oil. OPEC revived, after it was about to be liquidated. Nowadays, OPEC represents a cartel made by 12 countries: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE and Venezuela (see Figure 1).

Figure 1 OPEC member states

The present global crisis reiterated one of the essential goals of this organisation: protection of the individual and group interests of the cartel members. This implies: the prices establishment on the international oil market, insurance an adequate oil supply, correct exploitation quotes and an adequate profit to those which invest in the oil industry. OPEC's influence on market became essential in order to establish oil prices and production quotas. As a result, the critics against OPEC grew after the oil crisis from 1973 (Hammes & Wills, 2005).

The OPEC's influence on the oil market decreased after the discovery and early operations of major oil deposits in Alaska, North Sea, Canada, Gulf of Mexico and Russia. Nowadays, OPEC covers 2/3 of the world oil reserve and 33% of the world oil production. The second largest group of producers (OECD and former Soviet countries) covers only 23.8 of the world reserve and 14.8% of the world production (Owen, Inderwildi & King, 2010).

The oil market is dominated by dollar. The dollar exchange rate fluctuation is able to change OPEC's production decisions. A decrease of the dollar exchange rate implies a decrease in the OPEC revenues from sales. As a result, Iraq replaced dollar with Euro for its oil payment until the military invasion, when started to use the dollar again for the payments. Venezuela and Iran agreed the Euro for their oil sales payments, as well.

The second atypical integrationist project is the Organisation of Arab Petroleum Exporting Countries (OAPEC), which was founded by Kuwait, Libya and Saudi Arabia, in 1968. Algeria, Abu Dhabi, Bahrain, Dubai and Qatar became members of OAPEC in 1970, and Egypt, Iraq and Syria in 1972.

OAPEC was temporarily liquidated in June 1971. Dubai left the organisation in the same year. The main goals of the OAPEC are: member states' cooperation in various forms of the economic activity… development of close links between them… establish ways and means to protect the legitimate interests of its members…. unify efforts to ensure the oil flow to the consumption market under fair and reasonable terms…. creating a favourable climate for capital and expertise invested in the oil industry in member countries. In the late '60s, OAPEC forced OPEC to use oil as an arm against Israel occupation of Arab areas. On the other hand, OAPEC has undertaken several projects with countries inside and outside the organization (Kelly, 1980).

Figure 2 OAPEC member states

Nowadays, OAPEC represents an international specialised organisation which supports the cooperation between oil producers and the implementation of common projects connected to the regional integration.

An interesting example is another atypical organisation: BRIC.[1] Brazil, Russia, India and China formed BRIC, an organisation which was defined in Ekaterinenburg, in June 2009. These four countries represent emergent economies which cover 15% of the world GDP. According to the Goldman Sachs' experts, BRIC will be able to obtain a greater GDP than G7 in the next 20 years. This result is supported by the present global crisis. While the Western countries recorded economic decline, the four BRIC countries continued the economic growth. The political impact of this new organisation can be significant if the four countries conclude that together can seek alternative ways to current developments on the developed country markets.

Moreover, the four countries want to reform IMF, in order to increase their influence inside the world organisation. Brazil and India have a vote share less than Netherlands, for example. BRIC wants to change this "power balance" and announced that it is interested in buying bonds from IMF. BRIC wants to diversify the national reserve of currencies and to decrease the influence of the USD.

Figure 3 BRIC member states

But the four economies have different development degrees which create difficulties in the organisational management. China is the greatest world supplier, Russia and Brazil are great rare materials exporters and India offers the cheapest technology services. So, these four countries are able to influence the world economy if they work together.

On the other hand, BRIC can generate an internal economic conflict. China and India are interested in decreasing the prices for rare materials, but Russia and Brazil wants the opposite evolution. This is why Konstantin Kosaciov, the Foreign Relations Committee Chairman of the State Duma in Moscow, consider that Shanghai Cooperation is more important for Russia than BRIC. Shanghai Cooperation covers the countries from the Central Asia, Russia and China. This organisation is focused on security problems.

All these developments describe a world of selective cooperation, where the main actors will be less traditional alliances, but increasingly more short term coalitions, flexible built around a strategic point of interest. Overall, the international relations show the coexistence between order and disorder, society and anarchy. The system stability is determined by the major powers ability to reach a consensus on the rules of the game and to require them to those states which reject them.

Most experts believe that the main strategic challenge of the Euro-Atlantic community over the next 25 years will be to integrate the emerging powers in a system of rules and regulations set by Europe and USA. The stakes are sucking them into a structure of order built around the Euro-Atlantic standards. In case of failure, these large emerging countries could become revisionist powers.

The main advantage of the West related to the BRIC is the capitalist system itself. On the other hand, the emerging powers' prosperity is a product of the markets. BRIC prosperity depends practically to the integration into the global economy.

BRIC countries benefit from capitalism and have a fundamental interest in preserving their welfare system. As a result, they will not be tempted to destroy the status quo without risking their own

[1] Brazil, Russia, India and China - BRIC

economic suicide. Moreover, these countries are interested to be within the system and not outside. The strategic philosophy of the West related to BRIC is simple and is focused on BRIC integration into the "great capitalist peace". The only condition is that BRIC to accept the Euro-Atlantic standards.

Another direction of the atypical integration is that connected to countries from different continents. In 1989, was implemented Asia-Pacific Economic Cooperation (APEC) by the ASEAN countries, Australia, Canada, Japan, New Zeeland, South Korea and USA. China, Hong Kong and Taiwan adhered in 1991. According to agreement signed in Bogor (Indonesia) in 1994, APEC has to become a free trade and investment area able to support the less developed members to achieve sustainable economic growth.

Figure 4 APEC member states

In 1995, at Osaka, APEC proposed an interesting solution: every member state had to declare its own unilateral measures to liberalize trade and investment. The agriculture was excluded from this procedure. APEC aims to increase the living and education standards under a sustainable development. It covers 40% of the world population, 54% from the world GDP and 44% from the world trade.

Nowadays, APEC is focused on three essential areas: trade and investment liberalisation, providing incentives for business and economic and technical cooperation (Wilson & Taylor, 2008). In 1993, APEC leaders created a Centres of Studies Network, which connected the universities and research institutes from the member states, as the following: Royal Melbourne Institute of Technology, University of California, Berkeley, Kobe University or Hong Kong University. APEC believes that it is the first forum that facilitates economic growth, cooperation, trade and investment in Asia-Pacific region, aiming at economic growth and prosperity for the region and Asia-Pacific community.

Organisation for Economic Co-operation and Development (OECD) is an international economic organisation which covers 32 national economies. It was initiated in 1948 by: Austria, Belgium, Denmark, France, Greece, Island, Ireland, Italy, Luxembourg, Netherland, Norway, Portugal, Sweden, Switzerland, Turkey and UK. In 1961, Germany, Spain, Canada, USA, Japan, Finland, Australia, New Zeeland, Mexico, Czech Republic, Hungary, Poland, South Korea, Slovakia, Chile and Slovenia adhered to the organisation. The latest member states are Estonia and Israel (in May 2010)

Nowadays, the OECD advocates for democracy and market economy, finding solution to the common problems, promoting best practices and coordinating the internal and external policies of the Member States. OECD promotes policies for achieving the highest level of sustainable economic growth and labour and a high standard of living, while maintaining the financial stability and supporting the global economic development. The organisation supports the member states' economic expansion and the world trade development without discrimination, according to the assumed international obligations.

Figure 5 OECD member states

On the other hand, OECD was criticized by civil society groups and developing countries. The main reason for this criticism is the selective nature of admission states in the organization, with priority given to rich countries (Jorma J., 2003).

4. Case Study

The latest global crisis is different because it covered whole the economic world. It was the first time when all national economies had to fight against the crisis challenges. On the other hand, the same crisis represents a great opportunity for those economies which are able to adapt faster to the new economic conditions. The most powerful global economic actors stagger under the blows of the crisis, unable to find the saving solutions. The crisis is exported from one country to another, from one continent to another. The regional integration organizations, which were successful models some time ago, puffy looking for the sustainable growth. The political decisions taken inside these organizations face the national governments' opposition.

An interesting approach is that to realise a comparative analysis between the most important world economic actors related to their possibilities to face the crisis. The evolution of the GDP is able to support the conclusion that the crisis was different effects on different economies (see Figure 7).

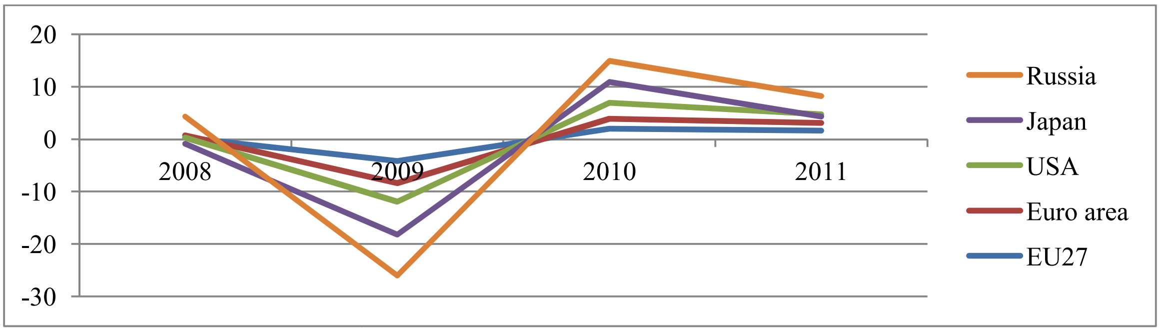

Figure 7 Economic growths under global crisis (%)

The common characteristic of the above economic actors is that they faced to recession in 2009. China achieved positive growth rate in 2009 but it was lower than in 2008. The crisis export from USA affected Japanese economy first (2008). The other economic powers had positive growth rates in 2008. Practically, the recession was passed in 2010 by these countries. 2011 brought positive lower growth rates for five from these six countries. Japan had negative growth rate in 2011 as a result of the natural disaster. Only three countries were able to fully recover the economic growth during 2010-2011: USA, China and Russia. The economic recovery in Japan, EU27 and Euro area was not enough to achieve the pre-crisis growth rates (European Commission, 2011).

On the other hand, it is interesting to analyse the evolution of the BRIC members during the present crisis. These countries succeeded in achieving high growth rates, which supported their faster economic development (see Figure 8).

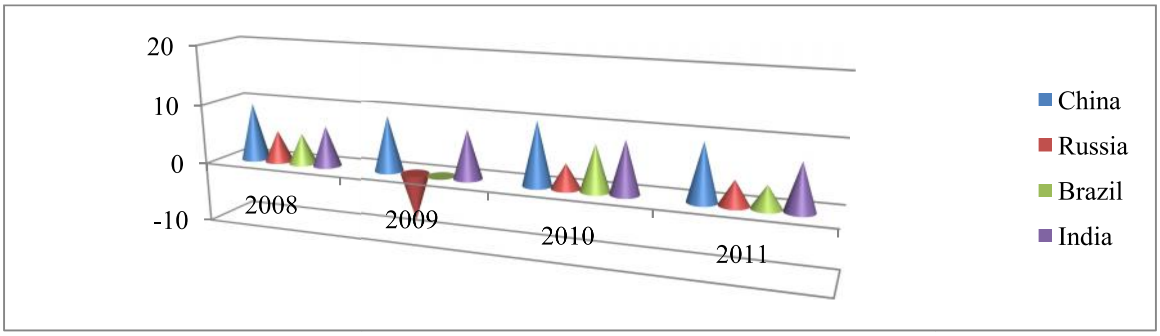

Figure 8 Economic growths in BRIC

Moreover, BRIC covers countries with important rare materials resources and high industrial production capacities, which are able to influence not only the world prices of the rare materials, but the industrial goods' prices as well. An intermediate conclusion is that the greatest emergent economies had a comparative advantage during the global crisis. Even that their economic growth rates decreased in 2011, these countries represents the world economic development engines, nowadays.

5. Conclusions

The economic chaos allows hardly the realization of the macroeconomic forecasts. Practically, the medium and long term forecasts disappeared. All we can afford, in terms of these economic developments, are short-term forecasts. Organizations specialized in statistics and forecasts make forecasts which are changed constantly. The EU27 official body itself, Eurostat, makes two forecasts each year (spring and autumn) on a horizon of only two years. The correction of these forecasts is avoided in the economic chaos that we go through. On the other hand, the present global crisis brought the idea that the global solutions are not good for every national economy. This is why the greatest regional economic organisations are not able to find the ideal solution for all their members.

Great difficulties in managing the crisis impact have EU27, Euro area, NAFTA, ASEAN or BRIC, nowadays. And the global market becomes a battle field. Those countries which will be able to cover a greatest part of this battle field will survive in this economic war. It is a new war, in which the combatants are not divided using the political system, dimension or traditional economic connections.

The international financial institutes can develop the crisis impact using dedicated economic forecasts. The latest World Bank's forecast uses some ideas, as: "developing countries need to prepare for the worst" or "global economy facing renewed uncertainties" (World Bank, 2012).

These statements have the power to lead the global economic evolution to a specific direction. Nowadays, the main economic actors are EU and emerging Asia. This is why the official forecasts are very important in order to attract potential FDI in those regions which are more "sustainable". The problem is that Eurostat (the official statistic bureau of EU27) and the World Bank have some interesting disparities in their forecasts related to 2012-2013. The economic trend in the Euro area, for example, has a more optimistic approach from Eurostat than the World Bank (see Figure 9).

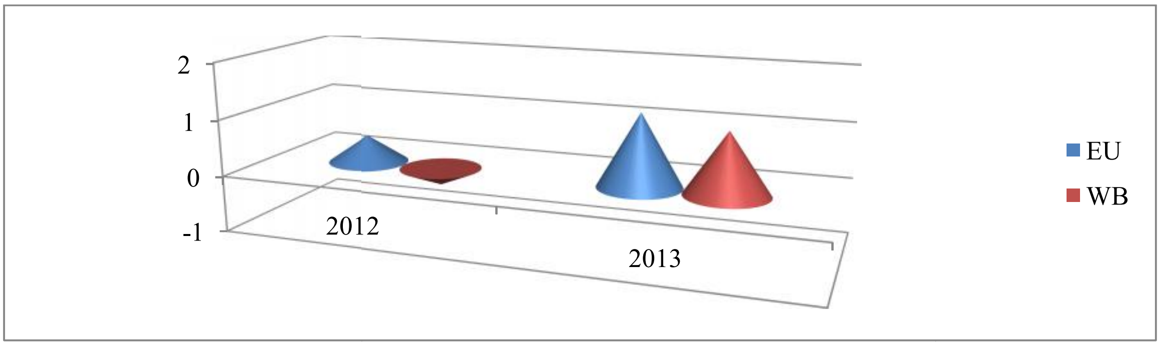

Figure 9 Euro area forecast (%)

The World Bank's forecast (WB) talks about recession in 2012 (-0.3%) and a lower recovery (1.1%) in 2013 across the Euro area. Eurostat forecasted a positive trend during 2012-2013 with higher annual growth rates (0.5% and 1.3%). A strategic investor, who trusts in World Bank forecast, will invest outside Euro area in 2012. It will invest in the Euro area only if it believes in Eurostat's forecast.

The lowest disparities between the forecasts for 2012-2013 are those connected to Chinese economy (see Figure 10).

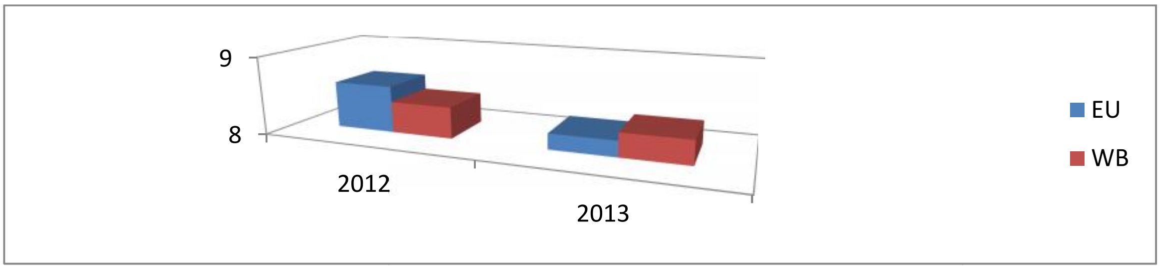

Figure 10 Chinese economy forecast (%)

Some disparities are connected to the Russian economy forecast, as well. The difference is that the World Bank's forecast is more pessimistic, now (see Figure 11).

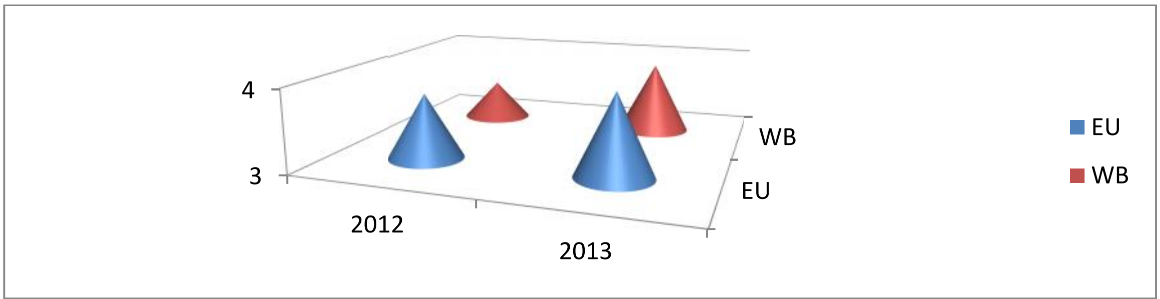

Figure 11 Russian economy forecast (%)

This must be the moment when the evolution in time can change everything! Let's suppose that the war in Iran will start. Or, which will be the above economic evolutions if Russia will stop the gas exports? Moreover, which will be the economic effects if China will enter in recession? The effects will be devastating. Or more, which will be the confidence deficit if Greece will leave the Euro area? Which will be the impact on EU27?

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THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES

The Role, Place and Relationships between FDI And GDP ror Romania between 2002 – 2010

Ivan Maria – Alexandra[1], Gentimir Irina - Elena[2]

Abstract: The Foreign Direct Investments for the European Union reached a volume of 289 billion USD, while the mergings and acquisitions volume was 115.3 billion USD. The EU-27 states, including Romania, have lately experienced a constant evolution of th FDI flows and stocks, but they now seem to be the ones that face up some harsh times. International studies show that the FDI are attracted by factors such as labour force flexiblity and the depth of the financial sectors for the „tradable" sectors, and the quality of the judicial system and the quality of the infrastructure for the „nontradable" sectors. None of these four factors is up to the expectation for the moment in Romania.

Keywords: Foreign Direct Investments (FDI); Gross domestic product *(*GDP*);* Globalization

JEL Classification: G01; G32; F36

1. Introduction

„While investors are still concerned about the economic crysis, their trust is expected to rise in the near future". This is a conclusion in the United Nation Conference for Trade and Development – UNCTAD, concerning world investments. The insistence is upon the developing countries and the „green economy".

Global cashflows are steadily rising; this is one of the main conclusions in the 2010 World Investment Report, carried out by UNCTAD. Foreign Direct Investments (FDI) have risen in the first half of 2010 and they are expected to reach a volume of more than 1200 billion USD (866 billion EURO) this year, to approximatively 2.000 billion USD (1.443 billion EURO) in 2012, reaching the level of 2007.

In 2009, the FDI outflows were the witnesses of some significant constrictions, as a result of the economic activity, with a decrease of 43%, evaluated to 1.114 billion USD (804 billion EURO). The whole system was affected by the recession. The industry has experienced the decrease of the investment volume, with a 77% decrease, compared to 2008. This phenomenon seems not to have reversed. The investors priorities regarded other branches, such as electricity, gases and water distribution, electronic equipment, constructions and communications.

The Foreign Direct Investments for the European Union reached a volume of 289 billion USD, while the mergings and acquisitions volume was 115.3 billion USD. The EU-27 states, including Romania, have lately experienced a constant evolution of th FDI flows and stocks, but they now seem to be the ones that face up some harsh times. This happens due to countries with low economic development speed, as a result of the declining export opportunities on the most advanced European markets and the precarious situations of many national financial systems. This phenomenon lead to the decreasing FDI stocks in South – Eastern Europe with a percentage of 31.

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Regarding Romania, Valentin Lazea, Chief Economist of the National Bank of Romania, mentioned that „it is necessary for the Romanian state to improve its indicators and show that it is lead by the German model. Moreover, the advocates of the bigger budget deficits are fake friends of the private sector, because the bigger budget deficits means the eviction of the private sector favourable to the gouvernmental sector."

Doru Lionachescu, from capital Partners, has a similar opinion. Two directions of the economic performance and investment amenity took shape in 2010 within the EEC: the central European coutries – Poland, the Czech Republic, Slovakia, Slovenia and Hungary, which kept or even improvet their investment amenity due to the experience in crysis policies, and the South-Eastern countries,including Romania, with low performance and fiscal unpredictability. Romania ends 2010 with a dissapointing situation regarding all the investment amenity indicators, reported to the countries in the area, as well as compared to the performance in other years. The results of this significant decline of investment amenity of Romania, in the new world economic crysis circumstances, have developed in a fast way and are frightening, with a decrease of the FDI stocks of 30-40% from one year to another. Within the wide range of the foreign direct investments, the greenfield ones followed the trend of attention towards countries and areas with highly confirmed growth potential and financial predictability."

Unlike the private sectors in the Czech Republic, Poland, Slovakia and Hungary, which reported excedentary current accounts, the private sector in Romania reported a 7% deficit of the GDP. This difference did not attract foreign investors. Some of the reasons which made the investors ignore Romania in 2009 and 2010 are the current account deficit, the cumulation of external debt, the budgetar deficit and inflation rate. The current account deficit reached 5-5.5% in the early years of 2000, but went over 11% of the GDP in 2007 and 2008. In 2010, due to adjustments, it came down to 5%, Valentin Lazea said. „Without major public policies adjustments, Romania risks gathering only the crumbs on the FDI table." „The quality of the foreign investors that had arrived in Romania leaves much to be desired. The challenge is to attract the quality investors you need", Valentin Lazea said, regarding the speculative less export oriented investors. Romania has to focus on the consolidation of a new economic growth model, less based on consumption and more on productive investments and net exports. Have Romanians learnt that there are „productive investments and less productive investments? „. We are interested in attracting FDI stocks especially towards industry and tourism, and less towards constructions and services. Moreover, it is essential for the industrial companies in Romania to develop local research centres, so that they would be able to replace the old products with new ones. Concretely, when local resources are not sufficient, personal efforts towards competitivness can be completed by attracting FDI flows, especially towards intensive capital and tehnology activities, with high income returns. The analysis of the investment rate and FDI rate has emphasized the positive effects of the FDI inflows over the national economy. The investment rate grew by 11.1% helped by the increase with 3.04% of the FDI rate. Moreover, researches carried out showed that there is a certain relation between the brute composition of immovable capital and FDI flows. The increase in the FDI flows, combined with the changing structure of the FDI towards greenfield investments, proves that the influence of the foregn capital inflows on the brute composition of immovable capital is extremely strong. International studies show that the FDI are attracted by factors such as labour force flexiblity and the depth of the financial sectors for the „tradable" sectors, and the quality of the judicial system and the quality of the infrastructure for the „nontradable" sectors. None of these four factors is up to the expectation for the moment in Romania. This is why it is more than necessary to solve these problems in a concomitant way, and also adjust the macroeconomic indicators. Romania is on a chase for foreign investors attraction. The country depends in a essentaial manner on external savings, because we are not able to generate an ammount of money and neither to save some money. Lacking important foreign capital flows, the Government must counterbalance the current account deficit by using money from the international organizations.

The main factors that make the country attractive are the investment environment and the fiscal predictability, the infrastructure, the market dimensions and the economic growth potential. When considering Romania as a possible location for the development of their activities, foreign investors search for the advantages this country offers.

The advantage of Market and Location

- One of the largest markets in Europe;
- The gateway to the single EU market (access to 500 million comsumers);
- Attractive location;

The Resource Advantage

- Highly-qualified workforce with a competitive cost;
- High volume of natural resources;
- High touristic potential;

The Political Advantage

- EU member;
- NATO member;
- Stability guarant in South-Eastern Europe;

International Affairs Advantage

The Legislative Advantage

- Judicial purview by the EU model;
- The fiscal policy regulated by the Fiscal Code;

Other Advantages

- Highly developed communication networks;
- Highly developed industrial infrastructure, especially oil and petrochemistry
- The location of international banks branches and subsidiary.
- Extended facilities for sea and riverine navigation;.

2. The Relationship between FDI Inflows and the GDP

The decisive factors of the FDI are multiple, with economic, social and political origins. These factor can also have a significant influence on the FDI inflows and outflows. The proposed analysis is to prove the direct connection between the economic growth and the FDI flows. In order to do that, we used the GDP (table nr. 1) and the FDI (table nr. 2).

Table 1 The evolution of the GDP and FDI within the EU between 2002 - 2010

EU GDP (millions$	2002	2003	2004	2005	2006	2007	2008	2009	2010
	9589725	11713636	13559672	14206857	15160806	17581188	18886028	16944121	17125316

EU FDI (millions$	2002	2003	2004	2005	2006	2007	2008	2009	2010
	309490.3	266870.1	222595	496074.6	581718.9	850528.3	487968.4	346531	304689.2

Source: www.unctad.org

Table 2 FDI percentage withing the EU GDP (%)

EU GDP	2002	2003	2004	2005	2006	2007	2008	2009	2010
	9589725	11713636	13559672	14206857	15160806	17581188	18886028	16944121	17125316
EU FDI/GDP (%)	3.2	2.2	1.6	3.4	3.8	4.8	2.5	2.0	1.7

Source:www.unctad.org

An analysis has been made regarding the GDP for the large areas in the world, as well as for the European continent, with details for the EU countries. This analysis shows the evolution of the GDP between 2002 and 2010.

According to table nr. 1, one can notice that the GDP has significantly risen between 2002 and 2008, from 9.589.725 USD in 2002 to 18.886.028 USD in 2008[1].

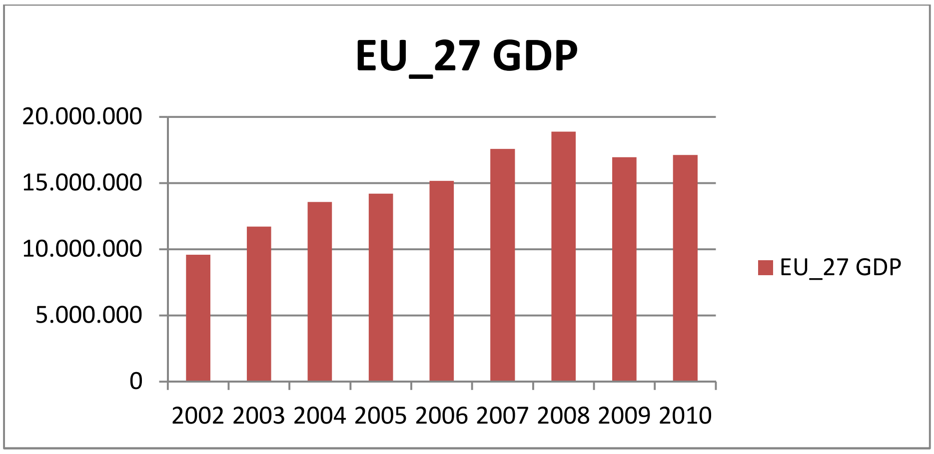
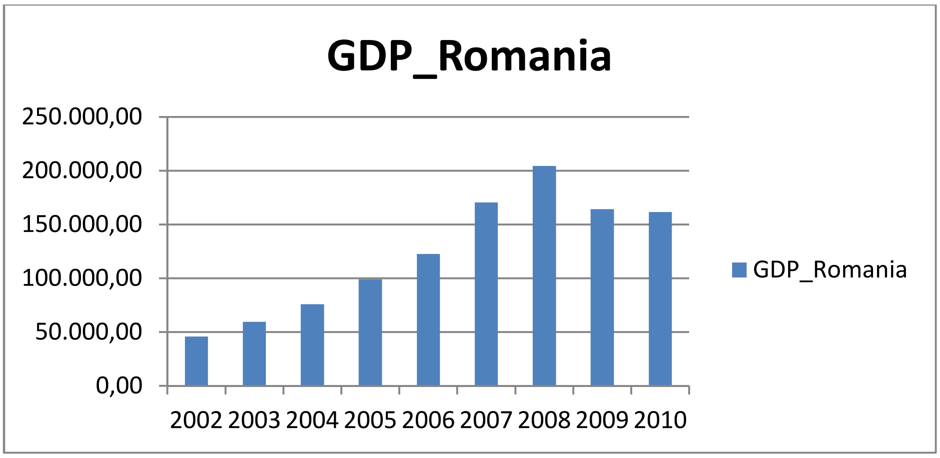


Figure 1. The GDP evolution in Romania between 2002 – 2010



Source: http://www.imf.org

[1] http://www.imf.org

If we look over the situation in Romania, we can observe that the GDP/capita in 2002 was 45988.51 USD, rising up to 204338.6 USD in 2008,and decreased in 2010 at 161629 USD. In order to conceive the analysis of the direct connection between the economic growth and the FDI flows, we will have to study the percentage of the FDI in the GDP total volume within the EU, and some of its members. We so analysed the percentage of the FDI in the GDP within the EU and its countries between 2002 and 2010

From table nr. 2 we can first notice that the FDI percentage in the EU GDP decreased from 3.2% in 2002, up to 1.7% in 2010, the most significant percentage being the one registered in 2007 – 4.8%.[1]

Romania didn't register a high FDI percentage, showing a decreasing tendency: between 2006 and 2007, the FDI percentage of the GDP reached 9.2% in 2006, decreasing to 5.8% in 2007 and the value in 2010 was of 2.2%, as shown in the next chart.

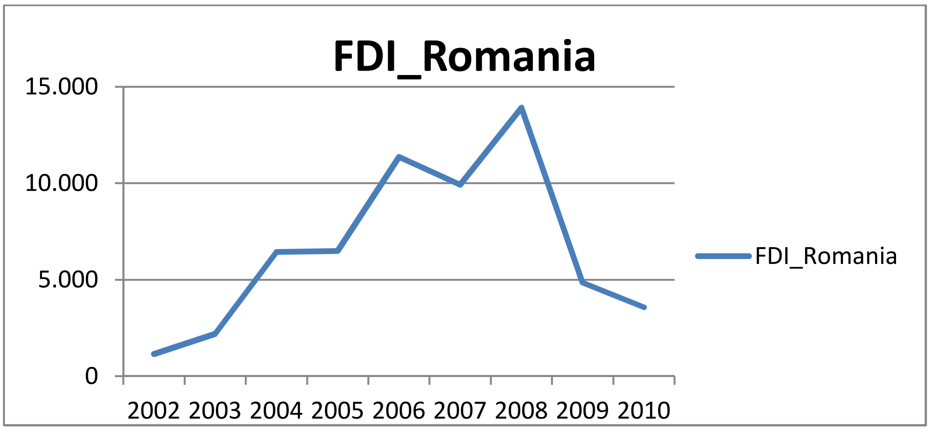


Chart 2. The evolution of the FDI in Romania between 2002-2010

Source: http://epp.eurostat.ec.europa.eu

Through the following tables and charts we will make an analysis of the situation in Romania, in order to observe the influence of the GDP growth between 2002 and 2010 over the rising of the FDI.

Table 3. The percentage of FDI within the GDP and GDP and FDI in Romania between 2002 and 2010

FDI/GDP (%)	2002	2003	2004	2005	2006	2007	2008	2009	2010
	2.4	3.6	8.4	6.5	9.2	5.8	6.8	2.9	2.2
GDP (millions $)	45988.51	59466.02	75794.73	99172.61	122695.9	170617	204338.6	164344.4	161629
FDI (millions $)	1140.652	2196.304	6435.591	6482.863	11366.87	9921.466	13909.99	4846.89	3573.297

Source : http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=96

http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88

[1] http://epp.eurostat.ec.europa.eu

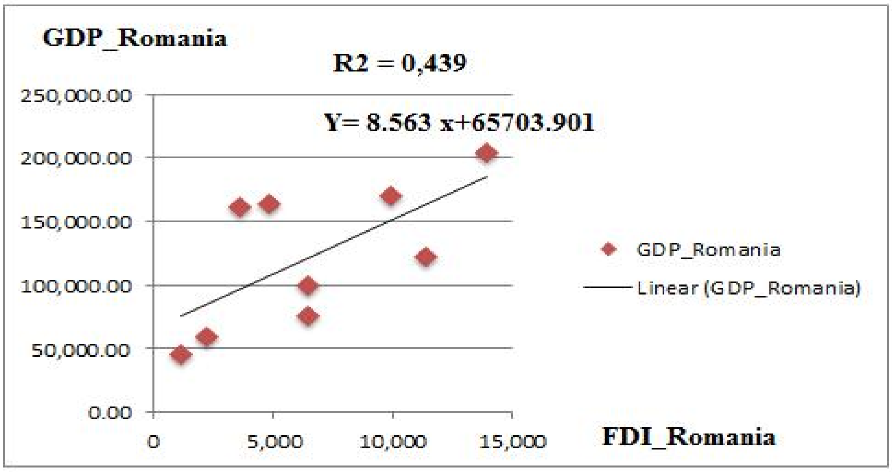


Figure 3. The correlation between the GDP and the FDI in Romania

Source: Own calculation from table 3

If we analyse the situation of the GDP and the FDI in Romania between 2002 and 2010, we can notice that a constant increase of the FDI has an unsignificant influence on the GDP. This phenomenon can be noticed in figure nr. 3. While the GDP increased from 45988.51 USD in 2002 up to 161629 USD in 2010, the percentage of the FDI within the GDP decreased from 9.2% in 2006 to 2.2% in 2010. In a atypical manner, the economic growth of Romania can not attract the FDI, investors being interested in factors such as the relative cost of workforce, the high level of qualification, the judicial undiscriminatory and attractive environment. The low costs of raw materials, utilities, and the cooperation of the public authorities with the foreign investors are also some attractive factors for the international market investors. We can assume that in the case of Romania there is a weak, unsignificant connection between GDP growth and the increasing percentage of the FDI within the GDP. Though, there can be an increasing trend of the gdp percentage of the FDI within the GDP, but not as a result of the increasing volume of the GDP. (Iacovoiu, 2006)

3. The Effects of Economic Growth Reported to the Variation of the FDI Flows

The bidirectional relationship between the foreign direct investments and the economic growth is seen as a result of their impact on the economic environment in each country and as a result of the positive influence the economic sustained growth has on the received foreign capital flows. According to the specialists, given a certain country, the intense periods of economic growth are characterized by the process of attracting some important FDI flows. (Lipsey, 2000) At the same time, the investments, both local and foreign, represent an essential factor of the economic growth, the elaborated models tend to reflect the real functional connection between the accumulation rate and the growth rhythm of the national income.

The potential positive impact of the attracted FDI in a certain country on its economic growth must be seen as the result of the GDP redistribution of the implanting country following the interest of the investing international companies. Against the background of the pronounced process of globalization, sustained by the internationalization and the diversification of the production, the transnational companies gain more significant profits in other countries than in their own countries, as a result of the lower costs of production. Consequently, for a similar selling price of their products, the value-added of the production in the foreign country includes a more significant profit than the one in the country of origin of the transnational companies, so that, through the performed FDI flows, these companies represent a redistribution factor of the GDP in the hosting countries.

The empirical data regarding the Central and Eastern Europe countries that are the subject of the analysis emphasize the main trends for their evolution beginning with the year of 2002.

Table 5 Real GDP growth rate in Romania between 2002 and 2010 (percentage)

Real GDP growth rate in Romania 2000-2010 (percentage)	2002	2003	2004	2005	2006	2007	2008	2009	2010
	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-6.6	-1.6

Source:http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tsieb020

Most of the central and eastern european analyzed countries, respectively Estonia, Hungary, Slovakia, Bulgaria and Romania experienced a significant economic growth, with a yearly percenty of 2.8%. By comparison, the Czech Republic, Slovenia and Poland experienced a moderated economic growth, with a yearly percentage of almost 3.6% between 2002 and 2007. (Lipsey, 2000)

Correlating this trends with the data about the implication of the foreign direct investments in the national economies, we can notice that in the case of some central and eastern european coutries, the attracted foreign direct investments contribute in a significant manner to the economic growth, while, in the case of other states, the influence of the foreign direct investments on the economic growth has been less significant. In the case of Estonia and Hungary, countries with significant foreign direct investments inflows, with a GDP percentage of more than 70%, the accentuation of the economic growth has had a positive influence over the inflows of foreign capital. As an example, beginning with the year of 2000, when the attracted foreign direct investments flows reached significant volumes, Estonia has reporterd yearly economic growth of more than 9%. At the same time, the developing economy attracted larger foreign capital flows, so that, by the year of 2006, the attracted volume of foreign direct investments flows represented almost 77% within the GDP. The slowing down of the eonomic growth between 2001 and 2003 resulted from the worldwide economic decline (the growing price of the oil, the declining investment volume, the terrrorist attacks in September 2001 against the United States of America and many others). A similar evolution, but on a lower scale, could be noticed in the case of Hungary, where the significant volume of foreign direct investment flows generated training effects, speeding up the process of economic growth, with positive influence on the foreing capital inflows. Although Romania has had a high rhythm of economic growth, with a yearly GDP growth rate of 5.1%, the economic growth had not been sustained as well by the foreign direct investments. By the year of 2006, the foreign direct investments percentage within the GDP reached almost 9.2%, under the EU-25 European average of 38%. By comparison, the accentuated economic growth in Bulgaria was sustainted in a significant manner by the foreign direct investments, that also had influence on the foreign direct investments inflows.

As a consequence, within the globalization and concrete economic integration contexts, the foreign direct investments sustain the economic growth, mainly on the internationalization of the production, depending on the concrete conditions existing in each country. In this respect, the best example are the Central and Eastern European economie, which can be separated in two categories (Bonciu & Dinu, 2003)

1. Economies where the foreign capital flows were sufficient so that they could generate training effects in order to speed up the economic growth process, such as Estonia, Hungary, the Czech Republic, Bulgaria and Slovakia;

2. Economies where the high rates of economic growth could not be sustained in a significant manner by the foreign direct investments flows, such as Romania;

Under a conceptual aspect, the foreign direct investments suppose the internalization of some tangible and intangible assets under the following circumstances: the involved economic agents must be situated in different countries; the interest of the investor must develop on a long period of time; the investor must exert the control over the assets that represent the subject of the investment.

4. Conclusions

Through the foreign direct investments, the companies intend to gain the most significant profit by turning on to their own advantages. As a result, these companies tend to internalize the external markets, generating inflows of goods, services, know-how etc. Therefore, companies carry out foreign direct investments when they dispose of the advantages that can bring a more significant profit abroad, showing that a certain development level had been reached in their own countries. The economic development level influences both the volume and the structure of the foreign direct investment flows generated and attracted by a country. In this respect, the carried out analysis have shown that there is a bidirectional connection between the economic development level of the Central and Eastern Europe countries and their attracted foreign direct investments volume. Thus, the existing initial gaps regarding the attracted foreign direct investments volume were reflected in the development level of the countries in the European Union, which influenced the inflows of foreign capital. The decision of investing in a certain coutry is based on a detailed analysis of local factors, the advantages of the host country, correlated with the needs of profitableness of the economic agents and the intensity of the afferent risk of performing on a foreign environment. The weight of each factor making the decision of investment depends on the foreing investors' motivation. Within the present context, of the global market economy, when every own advantage can vanish very fast, these motivation must be strongly argued.

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REALITIES AND PERSPECTIVES

European Integration between Equity, Efficiency and Welfare

Gabriela Marchis[1]

Abstract: Throughout this article I tried to highlight the path for improving the Europeans standards of living. Poverty, inequality and efficiency are the key concepts of the welfare economic. Similar to many other articles about equity, efficiency and welfare, this article offers an account of the challenges facing the European Union welfare in a context of global economy assessing the ability of different components of the welfare governance to respond to these challenges. The welfare of European Union is analyzed under the multidimensional aspects of integration, such as: internal versus external integration and multilevel integration. Aging, changes in the labor market, increased mobility are particular aspects that characterize EU and under the fundamental reform of Europe 2020 Strategy, welfare economic becomes a priority even if the political integration comes first to the economic one. As Europe grows more diverse, the welfare economic translates from desire to necessity.

Keywords: enlargement; internal convergence; multilevel governance; Europa 2020 Strategy.

JEL Classification: I38; R13; R58.

1 Introduction

European integration is a very long and complex process that is interested to be analysed in terms of the effects on regional development and standard of living.

European integration process proves to be a permanent game between **economics** and **politics**. The challenges produced by European enlargement over time, demonstrate that cohesion policy is an important tool of EU in creating equilibrium between the *internal convergence* and the *multidimensional cohesion*.

On European integration path, the economic motivation turned to be *adjacent* to the political one so that the rethinking of cohesion policy was carried out with aim of achieving and maintaining **political unity** of Member States.

This article tries to argue the role of cohesion policy in designing the future of European Union.

2 Theoretical Approach of the European Union integration

European Union is a dynamic process that occurs in three sequential phases, which stimulate and influence each other: *enlargement* which consist in the increasing of Member States, *deepening* which refers to economic liberalization, common policies and rules for Member States and *widening*, in terms of the scope of policy areas and freedoms (of movement).

The enlargement permanently redefines the map of EU and economic, social and territorial cohesion become a moving target of EU integration. Since these three phases are not simultaneous, the effects are delayed and are felt with different degrees of intensity.

At the same time, the globalization that is internationalization of business and finances, together with the intense interconnection of Member States, generated by the Single Market achievement, as a proof

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of deepening integration, make the economic welfare of citizens of a Member State to be *strongly dependent* on the economic prosperity of other states. In this context, the European integration seems to be a more complex process. Not only the *internal integration* generated by the enlargement, is affecting the cohesion of Europe, but also external integration which is materialized by WTO agreements, IMF and World Bank policies.

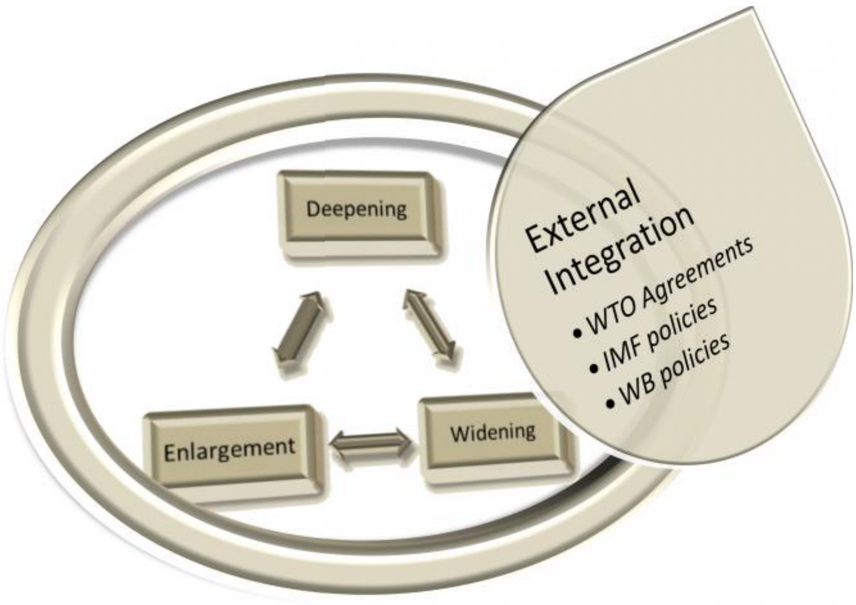

Figure 1 EU integration process

Source: personal contribution

The regional effects of different European policies caused by deepening and widening of EU, are strongly influenced and spread out by globalization. Thus the existence of a low develop region does not represent an *isolate problem* and does not concern only one member state.

Moreover, the labor mobility from the less develop regions towards the most competitive regions, more attractive in terms of economic and social conditions, represents an important factor of disequilibrium. Hence the rich countries should be equally interested in a harmonious development across the Union. But, the economic downturn that strongly hit Europe, rearranged the economic map of EU and the ratio of forces between rich and poor states.

The vulnerability of EU integration arises from different types in which the integration manifests itself.

The **multilevel integration** is caused by the differences between Member States in terms of the *caching-up rhythm* and also, by the *political options* of Member States to join or not the various integration projects.

In other words EU hard core is formed by those states that are “fully integrated”: Austria, Belgium, Estonia, Finland, France, Germany, Greece, Holland, Italy, Latvia, Luxembourg, Malta, Portugal, Slovakia, Slovenia and Spain. The second level of integration is represented by those countries that choose to join the European Monetary Union: the previous states together with Cyprus and Ireland. The third level of integration is formed by all EU member states, including those states that has not yet meet the Maastricht Criteria in order to join EMU (Bulgaria, Lithuania, Poland, Czech Republic, Romania and Hungary) and those states who refused by referendum to be a part of Eurozone (Denmark, Sweden and United Kingdom). And the last level of integration is embraced by states from Europe which joined only the economic projects of European integration and not the political ones: Island, Liechtenstein and Norway.

Figure 2 Europe of concentric cycles

Source: personal contribution

I already mentioned the complexity of the European integration process, so in line with this idea, the Euler Diagram reflects the other cooperation projects that reveal the deepening and widening of EU integration and also the economic prospects of EU. As it may be noticed there is a mix between political and economic decisions in designing the map of integration. A part from the concentric cycles of Europe, that are presented in the figure above, in the Euler Diagram of EU integration, other important projects of integration are described: Schengen Area, European Free Trade Association – EFTA (Iceland, Liechtenstein, Norway and Switzerland), EU Customs Union (EU-27 and Turkey, Moldavia, Monaco and San Marino) and those countries that have Agreements with EU in minting Euros (Monaco, San Marino and Vatican) and the last but not the least important, the Council of Europe (47 Member States).

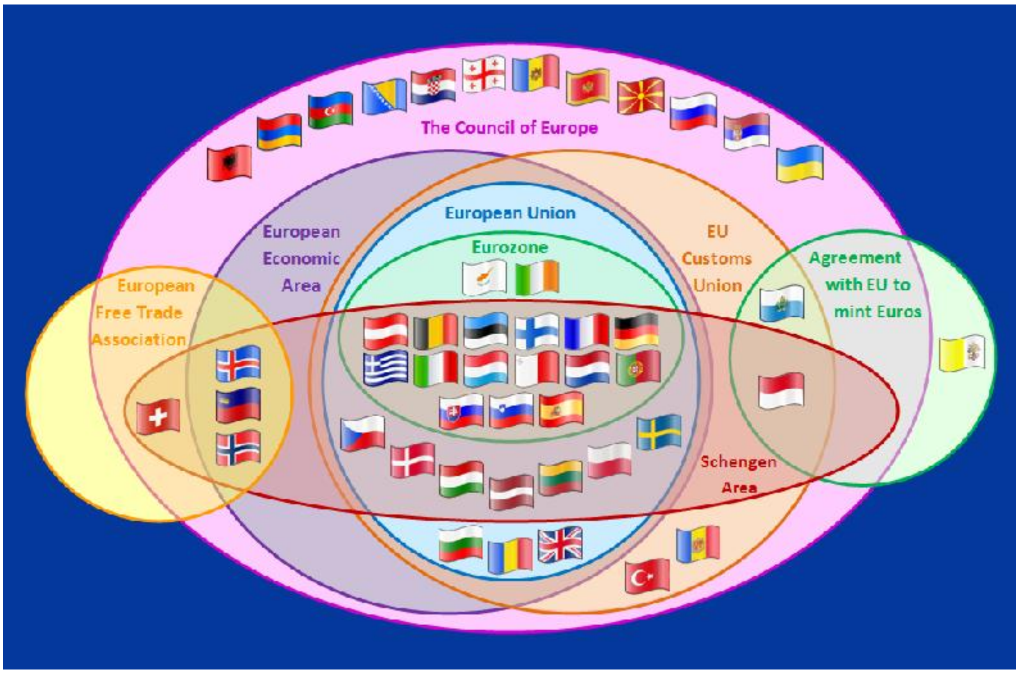

Figure 3 Euler Diagram of EU integration

Source: http://upload.wikimedia.org/wikipedia/commons/8/84/Supranational_European_Bodies.png

3. Equity in Terms of EU Integration Process

Equity is the fundamental principle of economic and social cohesion policy. Equity in European integration means that European citizens should not be disadvantaged wherever they live in EU. This idea is underlined by Boldrini and Canova (2001) which state that "*structural and cohesion policies mainly serve the purpose of redistribution of funds because of the equity criterion, on which the Union is built*". Equity is equivalent to reducing disparities of living standards and represents the key objective of most urban and regional development policies of the Member States. In broader terms, spatial equity is not only to equalize living standards, to achieve socio-economic balance, but also means the opportunity for different groups of individuals to develop harmoniously. Equity has a philosophical foundation that includes moral and ethical dilemmas.

The EU as a prototype of supranational organizations provides a vast framework of supranational rules and emphasizes the goal of promoting "system equity" (Green 1999; Drezner 2001; Knill 2005; Schlicht-Schmalzle & Moller 2011).

The idea of equity in European integration process is discussed in the specialised literature in connection with the idea of efficiency. But, there is a conflicting relationship between these two terms: "*national efficiency aims at an efficient allocation of regional resources in order to maximize the net national benefits, while interregional equity refers to fair teritorial distribution of revenue, labour factor, infrastructure, etc*" (Bachtler, 2000). More recently, **efficiency** is defined as being equivalent with avoiding waste and **equity** is view in relation with "*fairness and justice and is not about equitable distribution of resources*" (Oxley, 2004).

"*The effectiveness of integration policy has become a central political concern in European societies*." (Schlicht-Schmalzle & Moller, 2011) Initially cohesion policy was established for creating equilibrium among the development level of EU regions. Today the role of cohesion policy is changing towards boosting competitiveness and intelligent economic growth. This change is occurring in the context of the new pattern of European multilevel governance in a globalized world.

4. Welfare Economics into EU

In order to increase the living standards of its citizens EU needs to focus on ***welfare economic***, which consists in a correct use of resources with the aim of maximizing the wellbeing of the entire EU society, rather than the interest of its individuals. Thus wellbeing of EU may be different from the sum of the wellbeing of each 27 Member States. Therefore, the interest of the Union is prior to interest of those countries that compose the Union. But, in reality this technical approach is very difficult to be implemented since the *political integration* comes first to *economic integration*. Also, the current financial crisis generated a strong reallocation of funds and the budget of each Member State for cohesion policy became more and more reduced. "*Strategic reflections on the future role of cohesion policy include its relationship with other EU policies and with domestic policies.*" (Polverari & Michie, 2011) Fieldwork research highlighted the two sides of Cohesion Policy: *external coherence*, reflected by the interrelationships between Cohesion Policy, domestic policy frameworks and institutional frameworks and, *internal coherence* which refers to Cohesion Policy's regulatory framework that may hinder the policy's effectiveness in achieving its goals.

So, if the European goal is to increase competitiveness, in this globalized world, the quality of products is essential. European Union has to be more oriented towards modern technology in order to be able to speech the languages of international business. Mobilization of resources by pushing more of the population to work, upgrading the educational standards or investing in physical technology, is strongly required in order to produce the range of products demanded by international market. This is the reason of the new pattern of cohesion policy for 2014-2020 programming period, which is in accordance with Europe 2020 Strategy.

The *uniqueness* of European integration arises from its role of *political community*. In many aspects of life, the community law not only that is superior to national law, but may produce direct effects on

European citizens, giving them the right to contest the legislative measure from their national law when their rights conferred by the European law are violated. The role of EU citizens also increased by the Lisbon Treaty that authorizes popular initiatives starting with April 2012. In this context, if the individuals are more informed and involved in the society problems they may be more active in public debates and their voice may be heard even at Community level.

As it can be noticed there is an important distinction between ideological and technical discussion of European economic welfare, even if the final expected result is the same: maximizing the welfare of Union. In a globalized economy there is a debate between *individual decision-making* as organized groups versus *collective decision making* as citizens of a Member State.

This multilevel governance puts the state activity in an odd position. The state activity should not ignore individual choice or reject the preferences of individuals, but at the same time, due to some given circumstances imposed by *external integration*, market processes are not able to produce outcomes which do fully respect individual choices.

Another argument is that the EU lacks two important features of federalization. First, is that the Member States represents the authors of the Treaties, with the exclusive right of amending or modifying them, in accordance with their policy view. Hence, *political decision* will guide further integration. Second, there is no single system of taxation; basically there is no European fiscal policy. This could be the cause to important turbulence on EU market, because of the increased mobility of citizens and the Single Market mechanism.

5 Conclusions

Obviously, as welfare economics becomes more important the *coordination* between different European policies is needed together with *discipline* in implementing the communitarian decisions.

In designing the economic prospects of the EU, an *elaborate development plan* is needed. A mix between having money, natural resources or receiving foreign aid (investments) in order to build a dynamic full-employment economy, by stimulating European business environment, promoting SMEs' activity and bringing into life highly informed and educated people.

There are a series of obstacles that governments have to remove in order to accomplish these goals. Even if nepotism, favoritism and covered corruption are well-known as belonging to the Eastern and Central European Members, due to full interconnected economy and free movement of people, a communitarian campaign against these bad practices is requested.

Although the patchwork of nations is very various, the desire of EU citizens is the same: to maintain and improve their economic welfare in the face of rapid technological changes and the expansion of global economic markets for capital, labor, goods and services.

Openness is a necessity but not a sufficient condition for economic growth and prosperity. The "fertile soil" is as well very important: infrastructure development, human resources (highly informed and educated people), internal legislative framework, and juridical system. A valid proof is related with EU Member States evolution. Accordingly with Eurostat Yearbook 2011, some convergence in living standards took place between EU Member States during 1999 and 2009. Baltic countries suffered a significant setback in relation to economic downturn. Even if the New Member States (2004/2007) remained below the EU average, together with Portugal and Greece, all except Malta moved closer to EU-27 average. Luxembourg, Spain and Ireland moved further ahead of EU-27 average, while Portugal moved further behind.

The pattern of real GDP growth has varied significantly across EU in the last ten years. Between 2000 and 2009, the average annual growth rates of EU-27 were 1.5%. The Baltic countries averaged were 4.8% real growth per annum despite double digit decreases in 2009. Bulgaria, Slovakia (4.7%) and Romania (4.6%) recorded annual average growth around three times the EU-27 average, while Ireland, Greece and Luxembourg, the New Member States, with the exception of Hungary and Malta, grew by an average between 3% and 4% per annum during the period 2000 to 2009. At the opposite pole were Italy, Germany, Portugal and Denmark which grew of less that 1% per annum.

The economic excellence is not related to the size of the state or of being involved into an integration project. Switzerland, New Zeeland and Singapore are some examples. But, their individual success does not confer them the possibility to express their view on international stage, and their evolution is also strongly influenced by international forces. So, in a globalized economy it is important to have something to say, to be involved in decision making process.

In order to avoid a permanent stagnation or worse a never ending depression EU Member States have to be more oriented on efficiency and development rather than equity and assistance to the poor. The Europe 2020 Strategy seems to be designed in this purpose.

In my opinion the key to success consists in encouraging macroeconomic stability by avoiding high levels of inflation and budget deficits, together with discouraging social welfare schemes.

Each Member State should promote high levels of savings and capital investments rather than high consumption spending. Also, it is important to be opened to global technology and to promote better education and training. In Romania, for example, the illiteracy rate increased in the last decade and the on the other side the underemployment is endemic. Romania is also confronted with a huge brain drain and labor factor.

My own view is that if we want to develop the business environment and to prevent the external draining of valuable human resources we have to impose law and order, to create top standards in security, health, education and transportation. For encouraging domestic industry we need to attract investors so, it is necessary to cut the taxes on business and investment. Moreover, a lower level of government spending would release resources for society, for capital formation and growth.

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REALITIES AND PERSPECTIVES

The Future of Social Services - Approaches to a Sustainable Social Economy

Raluca M. Mihalcioiu[1]

Abstract: Social facilities and services are today more and more organized as modern service companies. They are increasingly working with market mechanisms rules. The evaluation of performance and efficiency controls the redistribution of funds to social security systems. The Nobel Prize Winner Muhammad Yunus was awarded for giving microcredits that helped citizens of his country, to find a way out of poverty. Sustainability is a key topic to the world economy debate. Companies should not pursue the goal of profit maximization, but they should solve the social problems of the world through their economic actions. Currently 20 percent of the people in the world possess 83 percent of wealth, about 1.73 billion people live below the poverty limit. In this review I present the concept of „Social Economy“, underlying the way how to optimize the actions of social services providers to the needs of the citizens. The analysis starts from the question of how national governments can regulate and subsidise services in the public good and how the civil society participate in decision making process on this issue.

Key-words: public economy; social services; sustainability; market; public good

JEL Classification: P31; J11; H5; M14

1. Introduction

The social sector is one of the largest economic activity. Usually, in the public discussions it is perceived only as scandalous or as selfless-volunteer. Experts in politics, administration, science and economy are concentrate on the issue of social services providers, how can they adjust their activity according to people needs and how is this to achieve, how is to overcome the problems created by the financial and economic crises.

This paper argues the difficulty to find a clear and conclusive definition for the concept of "social economy". Different perspectives on some key issues and challenges in social economy are discussed, with respect to the most important one: the shortage of skilled workers.

Important steps where made at the EU level, with regard to social economy organizations. In the European Commission Communication "Creating a favourable climate for social enterprises, key stakeholders in the social economy and innovation" (COM-2011-682 final) social enterprises are identified with social economy. This represents an important issue in promoting support and sustainability in the social economy sector.

2. The Concept of "Social Economy"

The "social economy" is a branch of economics and deals with services for the benefit of the whole society (individuals and collective). The focus is put on human services (social issues).

The term "social economy" goes back to the 19 century in Europe (France), and it was present in political, social and economic debates. It was the work of social reformers of that time who saw in the

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social economy the values of conservative social church which they sought to promote. Today, the defining elements of social economy show two currents of thought:

- the first can be traced to the sociologist Frederic Le Play, who saw social economy as a parallel market that is dependent on the state for its survival. According to this, social economy is functioning apart from the market.
- the second sees social economy as a dimension of the market. Regarding this view, the market is seen as an open domain, in which the social economy, the state, the commercial sector all play a role.

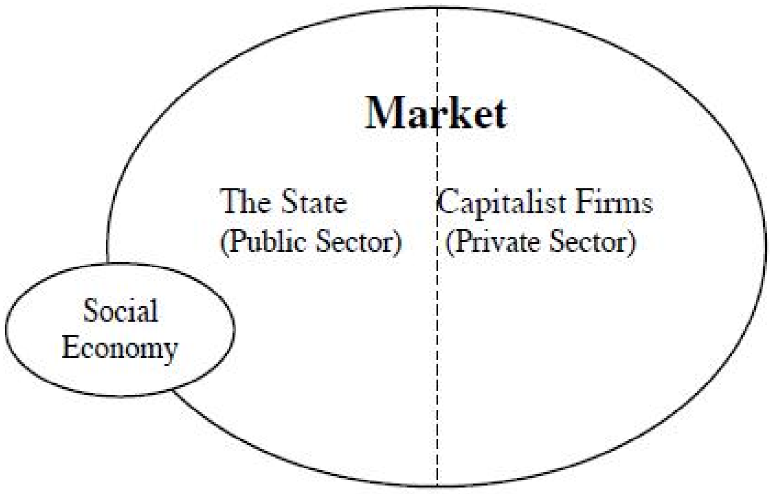

Figure 1

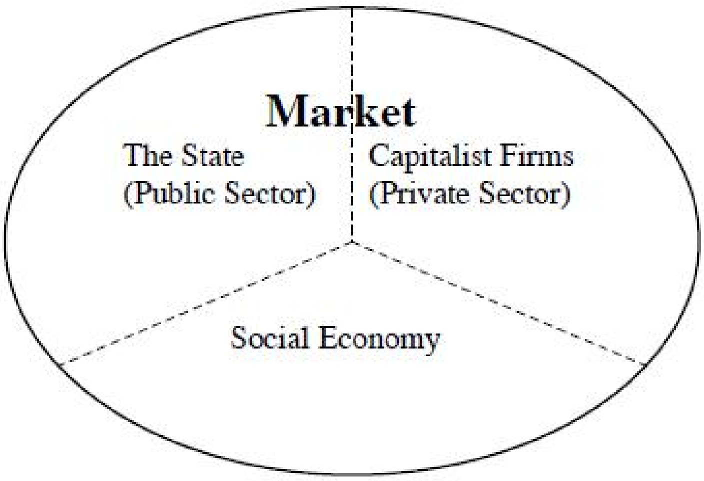

Figure 2

(adapted from Restakis, J., 2006)

However, recent studies show that social economy is located between the private sector (market) and the public sector (government), if social economy is considered a part of the economic activity. In common assignments social economy is placed to third sector and nonprofit sector. Althought social economy is part of the third sector, social economy does not include its entire range of organizations and activities.

The social economy appoint a specific field of creating economic value. It differes from other economic sectors in that it is primarily a non-profit activity, but with particular goals that cover the human needs.

Crucial for the definition of social economy is its social specific function. Social economy includes organizations, services, facilities and other enterprises which have as purpose to fulfill social task on the welfare of people, seen as individuals or collective. So, generally belongs to social economy enterprises and organizations that provide social services to children and youth institutions, facilities for the disabled people, that support workshops for disabled, outpatient and inpatient care services.

It is important to stress that the activities of social economy are based on principale of participation, empowerment and individual and collective resposibility.

3. Shortage of Skilled Labor in Social Economy

Skilled worker shortage is a very important topic for the whole labor market but especially for the social economy.

Several studies show a significat shortage of the entire labor market in the next 5 years. Not only academics and skilled workers are needed in the next years, but also unqualified workers. The reason for the incresing shortage of skilled labor are varied, for example declining birth rates, the aging society, challenging working conditions of market segments, some professions are unattractive for the young people, high labor costs and many more.

All this challenges must be from the social economy undertaken. They affect no longer certain areas or certain professions, like doctors or nursing staff, but they reach more and more market segments.

Social enterprises must develop and implement on medium and long term a strategic human resource planning, and further develop for the existing human capital and thus placing the individual measures in a systematic context. It is to decide between measures relating to the existing staff and those aimed recruiting human resources. They follow different purpose within a company.

Actions must be taken with respect to:

- the existing staff, for example employee motivation, training, education, advanced training, gradual transfer of responsibility;
- recruitment. A very good opportunity for this process is the cooperation with educational institutions from their own association, from surrounding regional area, private education providers. Such cooperation has also the advantage of training for both junior staff and existing staff performed by the same provider. Social economy should be especially attractive for young people, who are at the beginning of their professional life.

In the future, new and so far uncommon concepts and methods are gaining importance, like structured staff analysis. This analysis investigate from where was recruited the staff in the past, what kind of conspicuousness they show in terms of qualifications and age profile of the total workforce.

Another instrument is the check of personal risk. This is a simulation using statistical methods that predict the future morbidity development of existing and potential workforce, the future downtimes,employee turnover, due to certain diseases that forecast the clinical picture of one employee. Only in this way it is possible for an organisation to react at an early stage, to take appropriate prevention measures and adjust its workprocess.

As in all strategic measures, the impact is not seen immediately, but first must develop their effects. Therefore, early planning is of great importance. The competition has began between social service providers, each want to have the best staff that the others. Only with a good human resouces management can be achieved the objectives ones organization.

4. Conclusions

The social economy sector is an integral part of the economy and it is growing in dynamic, so that the innovation needs to be applied in order to continue development in this sector. Social economy is an important issue in discussions at all levels of society but currently it is present also on the EU agenda.

The present review describes the fact that the concept of social economy requires its own definition, but not a final one, because the importance of its activities and environment are constantly changing and evolving, with respect to the society needs.

In conclusion, social economy means an option, not a profit-justified kind of economy. The term of "social economy" is in many countries misunderstood. The results and products of the social economy organizations cannot be measured with the same instruments used for profit market, because the "profit" is situated in the social-political area, where qualitative descriptions and records criteria are needed for quality.

Shortage of skilled workers represents a wide discussed issue. The paper presents an overview of approaches to the social economy in recent human resources policy thinking, with respect to the demographic changes. Different actions must be taken in this area to prevent a more dramatic effect of the shortage of skilled labor. The most important aspects of the staff management are described in the section regarding human resources in social economy.

Global efforts must be made in order to build economies more human. Social economy becomes more relevant as a reformator to the social and economic forces that do everything is possible to isolate economics from its social context.

The social economy remains the main point of how people will use the structures of social relations to make society with a human face.

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REALITIES AND PERSPECTIVES

The Influence of Entry Mode Decisions on International Marketing Policies. A Framework

Fabio Musso[1]

Abstract: Several studies on firms' marketing strategy in foreign markets revealed inconsistent results regarding the relationship between entry mode strategies and the adoption of marketing policies. This inconsistency was due to the diversity of assumptions used for the conceptualization of the influence of entry modes on marketing strategies. The purpose of this paper is to offer a conceptual model that can support the analysis of how the firm’s choice of entry mode may influence the adoption of marketing tools in the selected market.

Keywords: Entry mode; International strategy; international marketing; foreign markets

JEL Classification: M16; M11

1. Introduction

In recent years the question of marketing program adaptation to foreign market has become a relevant subject of discussion (Zou & Cavusgil, 2002).

Many researches have investigated factors that may influence the adoption of marketing tools by the four dimensions of the marketing program: product, promotion, price, and distribution. Factors like type of product, technology, international experience, structure and nature of foreign competition, organizational factors, political factors, market infrastructure, and cultural/environmental factors have been identified as the main influencing drivers for firms' decisions (Jain 1989; Ganesh et al., 1996; Chung & Wang, 2006; Alimiené & Kuvykaité, 2008; Birnik & Bowman, 2007; Theodosiou & Katsikeas, 2001; Katsikeas et al., 2006; Samiee & Roth, 1992; Özsomer & Simonin, 2004; Theodosiou & Leonidou, 2003; Viswanathan & Dickson, 2007).

The tendency to use a relevant number of independent variables in the analyses, as well as the adoption of sophisticated statistical methodologies have not, however, contributed to the understanding of the influencing factors of marketing decisions. Some authors (Ryans et al., 2003) suggested that a more consistent conceptual base should be necessary for this topic and that assumptions should be review by scholars.

The objective of this paper is to identify a conceptual framework as a base for the analysis of the relationship between entry mode strategies and marketing activities. According to literature, the main strategic decisions in the internationalization of firms are those related to the market selection and entry mode choice (Douglas & Craig, 1989; Agndal & Chetty, 2007; Musso & Francioni, 2010; Sakarya, Eckman, & Hyllegard, 2007). Indeed, the decisions relating to the international market selection (Ellis, 2000; Sakarya, et al., 2007) and entry mode selection (Brouthers & Nakos2004; Lu, 2002; Root, 1998) are considered to be the most critical for a firm’s success abroad (Agndal & Chetty, 2007).

Even if market selection decisions and entry mode decisions are strictly connected, the analysis that follows will focus on the choice of entry mode and its influence on marketing policies.

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2. Theoretical Background

Entry mode choice has been considered one of the most important research fields on internationalization of firms (Burgel & Murray, 2000; Jones, 1999). In regard to entry mode selection process, some studies have illustrated that a the majority of firms have a passive behavior, particularly those of smaller size (Musso and Francioni, 2012). In this case, entry methods are not actively chosen by firms, but instead, are a consequence of agreements with foreign partners (in most cases importers and local distributors) or the fulfillment of unsolicited orders. Thus, there is no real choice and the adopted entry mode is the result of a passive response to an external stimulus.

However, there are firms exhibiting an active behavior by carrying out a systematic comparison of alternative entry modes and analyzing many factors prior to making a decision. With regard to the active behavior, several theoretical perspectives have been used to explain companies' choice of foreign operation methods (Welch, Benito, & Petersen, 2007). Among the most commonly adopted theories are the transaction cost analysis (TCA), the resource-based view, the institutional theory, and the Dunning's eclectic theory (Brouthers and Hennart, 2007).

For instance, Brouthers, Brouthers and Werner (1996) and later on Brouthers and Nakos (2004), adopting the Dunning's eclectic perspective, have analyzed if ownership, locational, and internalization advantages influence the entry mode choice of firms. Ekeledo and Sivakumar (2004) developed a conceptual framework, under which they created and tested a set of hypotheses to explain the firm's entry mode choice from a resource-based perspective. Moreover, Meyer (2001), applying the TCA, examined the impact of transaction costs and institutions on entry mode selection. Finally, Uhlenbruck et al. (2006), using the institutional theory, have investigated how corrupted local governments could influence entry mode choice decisions (Brouthers & Hennart2007).

Entering an international market is a choice which is based on an evaluation of sales potential as well as the risk and costs of operating in the foreign market. Within this process, market segmentation represents a key step prior to the marketing planning decision (Griffith, 2010).

For the planning of international marketing activities, the firm must identify its target market segments. International market segments have been described as defined and similar clusters of customers (final or intermediate) across national boundaries that have the same characteristics and are identified by similar criteria (Samiee & Roth, 1992).

According to this perspective, a marketing strategy is based on market definition and market segmentation. Within a marketing strategy, entry mode can be defined as an institutional arrangement for organizing and conducting international business transactions, such as exports, contractual agreements and direct investments (Root, 1994).

Contractual entry modes are defined as long-term agreements between an internationalizing firm and a subject in a foreign target country that involve the transfer of technology or human skills from the former to the latter (Root, 1994).

Entry modes have been classified depending on the degree of resource commitment (Johanson & Vahlne, 1991) and control (Anderson & Gatignon, 1988). These factors reflect the firm's ability to influence and to take decisions related to the market development. Some scholars (Laroche et al., 2001; Solberg & Durriu, 2008; Quester & Conduit, 1996) suggested that degree of centralization an control may influence the level of standardization of the marketing mix.

3. Influence of Entry Mode on Marketing Mix

According to marketing methodology (Czinkota, Ronkainen and Zvobgo, 2011), the planning of marketing policies is based on the firm's overall strategic decisions. Kotler et al. (2005) suggested that the global marketing program is influenced by the choice of entry mode. Following this line, it is possible to argue that the level of standardization or adaptation of marketing mix depends on the chosen mode of entry. Specific characteristics of the single entry mode can stimulate, or preclude, the adoption of a specific marketing program.

Indirect entry modes

A first key distinction is that between indirect exporting and direct exporting. Indirect exporting implies that the responsibility for, promotion, sales and most of the related marketing activities is transferred to an external organization (export agents and/or foreign distributors). Indirect exporting is most likely to be appropriate for a firm with limited international expansion objectives (Douglas & Craig, 1995), lack of resources and limited organizational effort. Thus, the firm tends renounce to the adoption of marketing program or to adopt a standardized approach (Griffith et al., 2003). According to this assumption, it is possible to introduce the following proposition:

> P 1. *Indirect exports lead to a limited adoption of marketing programs. In case are adopted, marketing programs tend to be standardized.*

This proposition can support the analysis of the effects of indirect entry modes on the use of marketing policies (marketing mix) and the related level of control. Indirect exporting involves a transfer of the marketing activities to an external agent, who might find it convenient to adapt at least some aspects of the program, if any, or can develop autonomous programs. However, some aspects of the product such as product quality and performance will be less adapted compared to other product elements. Thus, it is possible to state that:

> P 2. *Indirect exports lead to a standardized product policy and to adapted price, promotion and distribution policies.*

Direct exporting brings to establish an own export sales organization, which has the responsibility for exporting functions, including marketing programs. Compared to indirect exporting, the firm can acquire more information about the customers and competitors in the foreign market.

This learning process can facilitate the development of a local marketing strategy and a better adaption of the marketing mix tools (Solberg, 2000). This approach emphasizes the knowledge about local market and, on this basis, a more autonomous marketing strategy, even if controlled by the parent headquarter. As a consequence:

> P 3. *Firms entering a foreign market through a direct export entry mode are more likely to adopt a specific marketing program with adapted marketing tools*.

Despite a direct entry mode can lead to an adapted marketing mix, product policies tend to remain under a centralized control with less possibility of adaptation, due to changes in production processes and increased production costs that an adaptation may require. According to this assumption, we can state that:

> P 4. *Firms entering a foreign market through a direct export entry mode tend to adapt product policies to a lower level than price, promotion and distribution policies..*

Partnerships

Contractual entry modes have less homogeneous influence on marketing programs. In franchising the franchisor transfers to the franchisee a commercial know-how and the right to run a business under the franchisor's name. Franchising represents an entry mode which is feasible for marketing program standardization. In contract manufacturing the internationalizing firm contracts out production to a local manufacturer but retains control of marketing. Also in this case, the contractual agreement is feasible with respect to standardization of marketing programs. On the other side, joint ventures involve a co-operation between two or more firms with a complementary role of partners. Usually, the local partner has a relevant role in managing market related activities, due to its knowledge of the local environment. This implies that marketing program may be suited to the local market, suggesting that:

> P 5. *Contractual entry modes have a inhomogeneous influence on marketing programs. Franchising and contract manufacturing lead to more standardized policies than joint ventures.*

The influence of contractual entry modes on product policies depends on the content and form of the contract. However, the level of product standardization is supposed to be higher than for the other policies of the marketing mix (Chung & Wang, 2006). In the case of franchising and contract manufacturing the possibilities to adapt product policies to local market are lesser than for joint ventures. As a result, it can be stated that:

> P 6. *Contractual entry modes allow lesser product adaptation for franchising and contract manufacturing than for joint ventures*.

Direct investments

In establishing a wholly owned presence in a foreign market a firm can either acquire an existing company or making a greenfield investment. Acquisition enables rapid entry and may provide access to distribution channels, to an existing customer base, and in some cases may provide an established brand name or corporate reputation. Under this case the firm is likely to adapt to the acquired company's assets and skills, and also to its marketing programs. However, acquisition may imply difficulties of integrating the acquired business into the parent system (Gielens & Dekimpe, 2001; Jemison & Stikin, 1986), and such difficulties may involve marketing programs.

With a greenfield investments the firm needs to establish all the operations without the possibility to exploit a previous experience. There is no local expertise and marketing strategy that can be used and a marketing program need to be elaborated. Literature suggests that a foreign direct investment strategy based on greenfield can facilitate the development of a globally integrated system of production, logistic and marketing (Douglas & Craig, 1995). Accordingly, standardization is more likely to be selected within this entry mode strategy::

> P 7. *Greenfield investment as entry mode are more likely to bring to a standardization of marketing programs than for acquisition*.

4. Conclusions

While previous studies have identified a large number of factors of influence on international marketing programs, in this study the relationship between entry mode strategies and marketing mix activities has been analyzed. The more relevant influence is on the level of adaptation/standardization. The ability to control marketing mix variables is likely to increase the likelihood for standardization in case of direct export and contractual entry modes such as franchising and management contract compared to joint venture. Moreover, even though direct investment implies high control, an adaptation approach could be more feasible in case of acquisition due to existing marketing assets and skills, compared to greenfield operations.

According to the propositions introduced in the previous section, Table 1 provides a framework for the analysis of the influencing factors on international marketing policies, taking into account of the entry mode strategy adopted by firms.

Table 1. Relationship between entry modes and marketing programs in foreign markets

Entry modes		No Mktg programs	Product	Price	Promotion	Distribution
Indirect entry modes	Indirect exports	X	S	S (A)	S (A)	S (A)
	Direct exports	X	S (A)	A	A	A
Partnerships	Franchising		S	S (A)	S (A)	S (A)
	Contract manufacturing		S	S (A)	S (A)	S (A)
	Joint vrentures		A	A	A	A
Direct Investments	Acquisitions		A	A	A	A
	Greenfield investments		S	S	S	S

A: adaptation
S: standardization

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THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
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REALITIES AND PERSPECTIVES

Environmental Cost Accounting – Assessing the Environmental Responsibility Effort

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Abstract: The paper's aim is to evaluate different approaches of environmental cost accounting used around the world. One of the main issues of modern enterprise is to affirm its responsible behavior and to connect it with a positive economic benefit for the shareholders. Practically the management systems must find a way to address all the stakeholders' interests and needs.

Keywords: environment; cost; responsibility; stakeholders

1 Introduction

Steele and Powell (2002) define environmental accounting as the identification, allocation and analysis of material streams and their related money flows by using environmental accounting systems to provide insight in environmental impacts and associated financial effects.

The internal environmental cost can include those financial efforts engaged for the annual environmental reports and local community relationship activities and the expenses voluntarily registered for environmental programs such as tree planting. The costs themselves are not intangible, but the direct benefits that result from relationship or corporate image expenses often are (de Beer, Friend, 2006).

The literature documented a number of attempts for full cost environmental accounting and reporting such as maintenance cost, asset valuation and damage cost (Herbohn, 2005). Maintenance cost approaches focus on the maintenance of natural capital and have been used in the Net Value Added experiment (1990–1994) of BSO/Dutch Origin, and the Sustainable Cost experiments of Landcare Research New Zealand (Bebbington & Tan, 1996, 1997) and Interface Europe (Howes, 2000). Asset valuation approaches focus on valuation of environmental assets and changes of them, as in the case with the Supplementary Economic Accounts experiment (1995–1998) of Earth Sanctuaries. At last damage cost systems are concerned with estimates of external environmental costs from an organization's operations.

The consumption of natural capital is considered to be the depletion of environmental elements, pollution and deterioration of nature initial conditions (Bartelmus, 2009). Depletion values are in market prices, calculated as the change in the net present value of a natural resource stock during the accounting period; it also equals the value of the net rent (profit) from the use of the natural resource—net of a 'normal return to natural capital' (United Nations et al., 2003, ch.10 B). The maintenance is then strictly related to environmental degradation and has a direct function of growth.

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2 Environmental Costs Accounting

One of the advantages of separate calculation of environmental costs relate to not affecting the existing system of management accounting. This approach has shortcomings because it does not adapt easily to highlight integrated technology (new production systems performing less waste, etc..) Or the costs involved in situations where the environment is neglected. This method records cost if such costs arising from environmental regulations. Although environmental costs may be allocated to cost centers and targets, environmental protection is integrated into the management accounting and there is a clear representation of how costs should be treated integrated technologies and environmental protection.

Separate entry method is used and developed, for example in Japan, where they issued Guidelines for Introducing Environmental Accounting System EAS year (Guidelines for the introduction of environmental accounting system), jointly by the Environment Agency of Japan (JEA), research institutes and businesses. The aim is to achieve efficiency calculation of rates for Japanese companies, based on financial information and physical environmental impact. Term JEA hopes to standardize the information obtained from all enterprises that report and it provides free software that assists the registration of environmental costs and the reporting of information to JEA.

2.1 Full Environmental Cost Management Accounting

Total cost is a conventional method of accounting which aims to allocate the direct costs and indirect to the product, product line, processes and activities. IFAC mean total cost and environmental cost accounting, identification, assessment and conventional cost allocation, environmental and social processes, products, activities and budgets. The key element of this definition is that you cannot get a direct identification of environmental costs and must be allocated. Estimating future costs, particularly environmental ones, is important. There is a cost approach on environmental risks based on the total cost. Besides direct cost environment, this approach includes the cost of environmental commitments. Expanding the vision is based on the fact that most environmental costs appear not as a result of environmental activities, but because of environmental regulations.

Traditionally, total costs are the dominant cost accounting in general. For example in Australia, direct cost method is not recognized in financial accounting, and that management accounting systems in the country tend to ignore that method (Schaltegger, Wagner, 2005).

The total costs are imperfections that environmental protection is considered a cost of business rather than an opportunity. Conflicting information about the cost of pollution processes and products is not usually considered useful because of end-of-pipe technologies (processes or activities to create waste disposal and processing of a production process, unlike these clean technologies aimed at eliminating the causes and sources of pollution) under the fixed costs of production and thus independent of the technology's costs fluctuate considerably depending on product usability. Allocation of fixed costs per unit of product may be an incorrect procedure in management accounting in certain situations. For example, when environmental costs are considered indirect costs to be allocated to reduce their transparency highlight the need to implement effective management of environmental costs. Considering the environment as a factor generating costs leads to a negative attitude on the prevention of pollution. The opportunity cost attracted to neglect environmental protection is not considered. In the impossibility of making the right decisions based on full cost accounting, it can be criticized for not able to identify individual costs of processes and products.

2.2 Direct Environmental Cost Accounting

The main advantage of this approach is possible to identify the product environmental costs based on causal relationships based economy. Direct cost of fixed and variable costs are treated as separate accounting information is relevant both short and long term. The literature is proposed a multi-stage direct environmental cost by identifying environmental cost centers, which allows localization of the potential for environmental savings, taking into account the material and energy costs (Schreiner, 1988). It proposed a system that goes from the types of cost, by cost center accounting, cost accounting according to objective, internalizing such external effects.

The main issue considered by the direct cost approach is achieving a proper separation of environmental costs from other cost categories. This has not been explained so far. Classical accounts were also subject to criticism because it is oriented towards past costs, and little or no cost to present and future (Schaltegger, Wagner, 2005).

2.3 Processes Environmental Costs Approaches

Conventional approaches in this area (total cost and direct cost) are too limited to meet environmental protection as a causal factor cost. In such conditions adjacent to promote environmental activities in place of others based on clean production technologies.

Accounting for environmental costs should be oriented in two directions. First should be included in the analysis phase began (upstream) and final (downstream) of the production process. Secondly it is necessary to incorporate environmental costs that arise during the production phase and product sales. Extending environmental accounts at a level to cover the product life cycle will focus on competition and consumer benefits. Next logical development of new methods of cost analysis activities, the processes and environmental target.

One of the main advantages of assessing the cost of environmental activity or process is the integration of environmental accounting in strategic business management process and its connection with the objectives and general activities.

2.4 Processes Environmental Costs Approaches

According to neoclassical economic theory, committed to making a product cost is the value of other products that could be made instead. In other words because of limited resources a good can be produced only by not producing another one. This opportunity of another product is removed. The best of these alternative values to be waived are known as opportunity cost of the business. The decision to implement and use an environmental accounting system to manage limited resources is an opportunity cost, because the resources could be used for other purposes, possibly more profitable (Pramanik, 2002).

Using the concept of opportunity cost of environmental information, a manager who was allocated a budget to invest in an environmental accounting system until the marginal cost will equal the expected marginal benefits of investment. Information about the marginal cost is important because it refers to differences between different alternatives. Its role is to weight the volume of calculations necessary to compare different alternative plans, eliminating elements that are not affected by the decision.

Companies face costs of environmental impact, and its protection. The latter decrease with the increase of related environmental impact as pollution prevention and control leads to decline. Protection costs include costs incurred for environmental accounting for collection and analysis used in the development of effective strategies to prevent and reduce pollution, and measures of environmental impact management. Total cost is the sum of costs and environmental impact of its protection. Marginal cost of pollution prevention is the cost of organizational, technical and accounting to reduce environmental impact. The latter includes the costs of any "failure" of the system, fines, penalties, additional administrative costs and legal advice, which can occur if the organization fails to eliminate environmental impact.

2.5 Environmental Effort – Investment or Expenses?

If you had expenses capitalized or should be considered a problem that occurs in accounting and financial treatment of environmental costs. Traditional financial accounting, the difference between expenses and assets is clear - an asset is a resource controlled by the enterprise as a result of past and future events are expected to obtain economic benefits, costs are changes in terms of declining economic benefits during the financial year-accounting, or reduce output as assets or liabilities arise as a result (Schaltegger, Buritt, 2000).

In practice, it is difficult to determine what effect (increase or decrease) of change in economic benefits occurs when engaging in measures to prevent or reduce pollution.

Environmental investments have been defined by the Canadian Institute of Chartered Accountants (ICCA) as:

- Prevention or elimination of environmental damage and resource conservation;

- Removal of environmental damage from past incidents.

All ICCA has identified two approaches to the question concerning the accounting treatment for capitalization or environmental costs:

- Addressing increasing future benefits (IFB): present payments result in an estimated increase in future economic benefits associated with the asset;

- Addressing the added cost of future benefits (ACOFB): Environmental costs are capitalized if they are considered to be attached to the asset future benefits, regardless of whether or not an economic benefit.

Financial statements are prepared in a way the company's financial performance is not affected by non-financial issues. In purely economic terms, capitalization of costs should be allowed only where these costs contribute to an added economic benefit in the future (future total benefits, the approach to IFB).

In special cases, costs of remediation or pollution prevention can be considered active if they are absolutely necessary to carry the company, even if they do not affect future cash flows. In this case, spending ensures a constant asset value that would achieve reductions in the future if such costs would be incurred in now.

Another question arises about the type of action of environmental change from the old end-of-pipe technologies (cleaning) to modern prevention. If the company acts in a classical style (end-of-pipe), environmental costs are more easily identifiable, can be attached to input measures in accordance with environmental standards. The company has adopted the broader technologies (clean production processes), it becomes more difficult to identify compliance costs. If environmental management decisions are incorporated in the process and realize both environmental improvements and cost savings, it becomes difficult to separate the costs of environmental management of production costs (Pramanik, 2002).

In terms of environment, capitalization (ACOFB approach) is preferred that prevent pollution creates environmental benefits. Moreover, depreciation capitalization favors a number of years, and thus facilitates long-term approach to green production programs and interventions are not limited to simple point.

However it can be argued that in most cases, pollution prevention activities involving expenses and nothing more, because they are reflected as a mandatory repair to society and nature. From this perspective, environmental remediation costs to be considered current expenditures for environmental policy are required by national and regional level. The purpose of such costs is more appropriate to use in industrial land and protect the surrounding communities, but to create a business asset. In this case, pollution is seen as an increase in obligations of the company (to nature). Cost reduction of these obligations must be engaged and not recognized as investment.

ACOFB approach may be preferred if it is not expected emergence of new problems for the near future, that could give rise to other environmental obligations. In this case, a prudent and rational management, class environmental costs necessary to prevent a problem, among assets.

IASB chose IFB approach (IAS 16), while the European Federation of Accountants (EFA) and urgent Working Group (EITF) of FASB approach embraced ACOFB.

IAS 16 allows capitalization of environmental cost, if it generates future economic benefits other assets (IAS 16, paragraph 11), and the cost is recovered. Such items of property are classified to be recognized as assets because they enable an entity to obtain future economic benefits from related assets in excess of what could be achieved if those costs were not incurred. For example, a manufacturer of chemical fertilizers can introduce new processes for handling chemicals, to comply with environmental requirements for production and storage of hazardous chemicals related improvements are recognized as assets because without them the entity is unable to manufacture and sell chemical products, the conditions are. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in conformity with IAS 36 - Impairment of Assets.

The obligations for costs accounted for under IAS 16 (and IAS 2), are recognized and measured under IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

However, there is a limit to the standard identified by Schaltegger (2002) namely that when compliance is reminiscent of "environmental requirements" does not mention if it is just about the legal character, and also its social, which arises from the social relations of the enterprise.

FEE recommends that the cost of employment which prevents the effects of environmental impact to be capitalized, and the remediation, cleaning of sites of past effects of environmental impact, to be treated as expenses.

Even if capitalization is generally accepted environmental investments bringing future benefits, some costs of voluntary activities designed to meet the needs of different stakeholders, not covered by IAS 16 and hence cannot be treated as assets.

Other European recommendations (2003-R02), discusses environmental costs can be capitalized where they were made in order to prevent or preserve natural resources, if they provide future economic benefits. These charges may not be counted as an asset unless they are intended to serve sustainable business activity and if they meet one of the criteria:

- Expenses are necessary for being able to obtain future economic benefits expected to allow the extension of life, increase capacity or improve safety or effectiveness of other assets belonging to them (for their level of performance as estimated before the performance evaluation expenses;
- Expenses for minimizing or avoiding probable environmental contamination due to the company's future activities.

When environmental expense recorded in the asset is linked to another existing asset, it must be treated as part of the asset and cannot be accounted for separately.

3 Conclusion

There are different approaches for environmental cost assessment and accounting. All these methods are focused on managing the financial effort made by the enterprise for a responsible behavior regarding the environmental protection. Also as any cost component the environmental related one has its contribution and impact upon performances and market status. Nevertheless the environmental costs are not only the expression of internalization of environmental impact of economic activity but also the financial footprint of voluntary measures and actions.

The catch of environmental cost impact upon the economic and financial activity is that there are many different ways of assessing are registering it with different results. The best example is maybe the different approaches of environmental investment and expense. The interpretation of these two key concepts has fiscal and performance effects each time the two elements are regarded in one of the postures.

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REALITIES AND PERSPECTIVES

The Basic Challenge in EU Countries Promotion Strategy in Exporting Commercial Services

Octavian-Liviu Olaru[1], Livia –Irina Olaru[2]

Abstract: The global financial and economic crisis which started in 2007 had a considerable impact on the international exchange of goods and services and on the intensity of global financial flows and business activity. Starting with 2010, the EU-27 economy returned to its previous trend of progressively more integration with the international economy in terms of its level of credits and debits relative to gross domestic product (GDP), having experienced a reversal in 2009. The average value of EU-27 trade flows of goods corresponded to 11.6 % of GDP in 2010, up from 9.8 % the previous year. The level of trade integration of services rose to 4.0 % of GDP in 2010, up from 3.9 % in 2008 and 3.8 % in 2009. The basic challenge in EU countries promotion strategy in exporting a commercial service is to convince a foreigner to try a service that does not exist yet. The foreigners have to believe that the service will be of good quality and will meet their needs. Usually the foreigner forms that belief based on recommendations, referrals, or somehow seeing the service provider in action. There are also several roles that trade promotion activities can play in building that belief or credibility. A national TPO needs to find or reinforce some special quality that its country has so that when potential customers hear about a service supplier from this country, their first response is, "Oh yes, I've heard good things about services from your country."

Keywords: EU-27; commercial services; foreign trade promotion; TPO; efficiency.

1. Introduction

The importance of international trade is widely recognized not only by the business sector, but also by governments. Governments all over the world have reviewed and streamlined their trade policies during the last decade. Economic reform programmes have improved the overall policy framework and created a more favorable environment in many countries.

In spite of this considerable resource endowment of trade promotion programmes, these programmes need to be selective in terms of products, functions and/or markets. An equal distribution of trade promotion resources over all products, functions and markets would obviously not make sense, as resources would be spread to thinly to reach anywhere a critical mass.

In spite of this considerable resource endowment of trade promotion programmes, these programmes need to be selective in terms of products, functions and/or markets. An equal distribution of trade promotion resources over all products, functions and markets would obviously not make sense, as resources would be spread to thinly to reach anywhere a critical mass.

In the context of globalization and increased competitiveness in the world market in general, and in Central and Eastern European countries, in particular, structural adjustment programmes and trade policy reforms are preconditions for economic growth and healthy trade performance. However,

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macroeconomic initiatives need to be complemented and supported at the microeconomic and operational level, in order to ensure a dynamic, outward-oriented and competitive business sector. Firstly, there is a need to improve the export supply response through institutional strengthening and enterprise-oriented assistance in areas such as product development and adaptation, trade finance, export quality management, export packaging, and better management of imported inputs. Secondly, efforts towards market expansion and diversification must be intensified, for example through the strengthening of business information networks.

Trade Promotion Organizations (TPOs) have a broad mandate to provide or coordinate trade support services in these areas.

A Trade Promotion Organization (TPO) is defined by the International Trade Centre UNCTAD/WTO from Geneva like a private or public institution with the main task to facilitate entry into foreign markets for a collective group of exporters and manufacturers of the home country. Governmental TPOs are those bodies set up by government as part of its infra-structure in order to facilitate foreign trade in general, but exports more in particular.

2. Main Trends in International Trade with Commercial Services

World exports of commercial services increased 8 per cent to US$ 3.67 trillion in 2010 after dropping 12 per cent in 2009 (Table No.1)

Transportation was the fastest growing component of commercial services exports in 2010, with an increase of 14 per cent to US$ 782.8 billion. The faster growth of transport services is not surprising since they are closely linked to trade in goods, which saw record growth last year. Travel grew in line with commercial services overall, whereas other commercial services (including financial services) advanced more slowly.

Europe’s exports and imports were both larger than any other region’s in 2010 (US$ 1.72 trillion and US$ 1.5 trillion, respectively) but they were also the least dynamic, with growth of just 2 per cent on the export side and 1 per cent on the import side. The reason for Europe’s poor performance can be found in the weakness of travel services, which declined by 3 per cent on the export side and 2 per cent on the import side.

The United States exported US$ 515 billion in commercial services in 2010, or 14 per cent of the global total, making it the world’s largest exporter. The other countries in the top five were Germany (US$ 230 billion, or 6 per cent of world exports), the United Kingdom (US$ 227 billion, also 6 per cent of world), China (US$ 170 billion, 5 per cent of world) and France (US$ 140 billion, 4 per cent of world).

The United States was also the leading importer, with purchases of US$ 358 billion from foreign providers, equal to 10 per cent of world imports. It was followed by Germany (US$ 256 billion, 7 per cent of world), China (US$ 192, 5.5 per cent of world), the United Kingdom (US$ 156 billion, 4.5 per cent of world) and Japan (US$ 155 billion, 4.5 per cent of world). China replaced France as the fourth-largest exporter of commercial services, while Germany overtook the United Kingdom in second place. China also moved up the rankings on the import side, taking over the third position from the United Kingdom.

When trade within the EU is excluded, the European Union becomes the leading global exporter, with services exports to the rest of the world totaling US$ 684 billion in 2010, or 25 per cent of global trade. It is followed by the United States (with 18 per cent of the reduced world total), China (with 6 per cent), Japan (with 5 per cent) and Singapore (with 4 per cent).

The European Union is also the top importer when trade within the EU is left out. Its imports from non-EU countries in 2010 came to US$ 598 billion, or 22 per cent of world trade. The remaining countries in the top five were the United States (13 per cent of world), China (7 per cent), Japan (6 per cent) and India (4 per cent).

Starting with 2010, the EU-27 economy returned to its previous trend of progressively more integration with the international economy in terms of its level of credits and debits relative to gross domestic product (GDP), having experienced a reversal in 2009. The average value of EU-27 trade flows of goods corresponded to 11.6 % of GDP in 2010, up from 9.8 % the previous year. The level of trade integration of services rose to 4.0 % of GDP in 2010, up from 3.9 % in 2008 and 3.8 % in 2009.

a medium term strategy for fiscal consolidation.

Table 1 International Trade in Commercial Services of some EU Countries, in 2010

EXPORTS				IMPORTS			
Exporters	**Value (Billion dollars)**	**Share**	**Annual percentage change**	**Importers**	**Value (Billion dollars)**	**Share**	**Annual percentage change**
World, of which:	**3665**	**100,0**	**8**	**World, of which:**	**3505**	**100.0**	**9**
-Germany	230	6.3	2	-Germany	256	7.3	1
-United Kingdom	227	6.2	0	-United Kingdom	156	4.5	-1
-France	140	3.8	-1	-France	126	3.6	0
-Spain	121	3.3	-1	-Netherlands	109	3.1	1
-Netherlands	111	3.0	0	-Italy	108	3.1	1
-Italy	97	2.6	3	-Ireland	106	3.0	2
-Ireland	95	2.6	3	-Spain	86	2.4	-1
-Belgium	81	2.2	2	-Belgium	76	2.2	4
-Luxembourg	68	1.9	13	-Denmark	49	1.4	-1
-Sweden	64	1.7	9	-Sweden	48	1.4	6
-Denmark	58	1.6	7	-Luxembourg	38	1.1	8
-Austria	53	1.5	-1	-Austria	36	1.0	-2
-Greece	37	1.0	-1	-Poland	27	0.8	16
-Poland	32	0.9	11	-Czech Rep.	24	0.7	28
-Finland	25	0.7	-10	-Finland	23	0.7	-11
-Czech Rep.	22	0.6	10	-Greece	20	0.6	2

Source: WTO Data

3. Main Approaches in EU Trade Promotion of Services Exports

At micro - economic level, the main approach for a services exporter is represented by his ability in promoting his new product on the international market. In this respect, the basic challenge in exporting a service is to convince a foreigner to try a service that does not exist yet. The foreigner has to believe that the service will be of good quality and will meet their needs. Usually the foreigner forms that belief based on recommendations, referrals, or somehow seeing the service provider in action. There are also several roles that trade promotion activities can play in building that belief or credibility.

At macro – economic level, the main task in promoting the national business oportunities in the field of services on the international market is in charge of the national TPO, which, in cooperation with the non – governmental organizations and the economic operators has to create a general favorable image of a certain branch on a well defined segment of the world market. In this respect, the national TPO needs to find or reinforce some special quality that the national providers of a specific service have, so that when potential customers hear about a service supplier from this country, their first response is, “Oh yes, I’ve heard good things about services from your country”. An example in this respect is the following: when people think of computer software and IT services, they think of India which now has 12% of the global market. Any Indian IT firm benefits from that reputation, which was built up over a period of ten years.

Here are some questions to ask yourself to help a national TPO to identify the competitive advantage of the national providers of service:

- *Does the country have a geographic advantage?* For example, Panama is already known for being a transportation and distribution hub due to the Panama Canal and its strategic position between Central and South America. Based on its infrastructure and links to four submarine fibre optic cable systems, Panama can now market itself as the regional hub for e-services.
- *Does the country have a language or cultural advantage?* For example, Peru has large Japanese and Chinese immigrant communities.
- *Does the country have a human resources advantage?* For example, Jordan has a number of well- trained professionals who were trained in the U.K., U.S., or France and have extensive work experience in the Arab Gulf countries.
- *Does the country have a reputation for being particularly business friendly or familiar with other ways of doing business?* For example, Barbados has a reputation as a politically stable, open economy with over 8,000 offshore businesses.
- *Does the country have a reputation in a particular sector that can be leveraged as a country image?* For example, Jamaica has a global reputation of reggae music, which is being leveraged as a lead sector.
- *Can the country provide the foreign customer access to a range of other markets?* For example, a CARICOM country like Trinidad & Tobago can position itself as the gateway to the Caribbean (and South America through links with Venezuela) for services like market research.

4. Selecting Priority Sectors and Target Export Markets

Usually, a country is offering over 60 categories of services being exported. For successful trade promotion, the national TPO will need to pick priority sectors for the focus of its promoting resources – i.e., sectors where the local companies have:

- Some competitive edge to exploit.
- Sufficient domestic capacity to support rapid export growth.
- Some potential for synergies among services.
- A service industry association to work with government on trade promotion strategies.

In general, services are exported to a wider range of markets, at least 30 different export markets, than are goods. For effective use of resources, the national TPO will need to select geographic markets that hold the greatest growth potential. For this reason, the national TPO has to take into account the following:

- The number of firms already exporting to, or interested in, that market.
- Economic growth patterns in that market.
- Attitudes in that market towards importing services.
- Historical links with that market, including investment and tourism.
- Ease of access for exporters (direct flights, visa requirements).
- Ability to pay, including exchange restrictions, inflation rate, currency stability.

5. Planned Trade Promotion Activities

While goods promotion typically focuses on the tangible product (making use of virtual trade shows and online catalogues), services promotion needs to focus on the solutions that can be provided by the service companies. Customers are particularly interested in onestop solutions. For example, a consortium that includes architecture and design, engineering, construction, and project financing is more competitive than any of those services on their own.

While there is a wide range of services being exported, from a trade promotion perspective there are five general categories of services that benefit from slightly different promotional approaches:

- *Infrastructure services*. These include architecture, engineering, construction, transportation, distribution, and financial services.
- *IT-related services*. These include computer consultancy, software development, data processing, database management, and call centres.
- *Business services* (non-IT-specific). These include a wide range of business support activities such as research & development, equipment leasing or maintenance, market research, management consulting, translation, investigation & security, etc.
- *Professional services*. These include the licensed professions (other than architecture and engineering) like accounting, legal services, medical & dental services, nurses and veterinarians.
- *Quality of life services*. These include education & training, health-related services, entertainment services, cultural services, recreational services, and sporting services.

There are eight general types of activities that have proven useful in promoting the above mentioned five categories of services.

- *Participation in global or regional trade events*. For some services, there are annual or biannual trade events that provide excellent profile building and networking opportunities. Examples include CeBIT, Medtrade, and WTA. In some instances, it is possible to find that a regional trade event that is held in an export market of priority is even more useful. To maximise effectiveness, it is useful to have some kind of export country presence – a booth with information about service capabilities, a sponsored reception for participants from targeted export markets, speakers on the program, etc.
- *Sector-specific trade missions.* These trade missions would be comprised of service firms that are already exporting or wishing to export. To maximise effectiveness, the TPO which is in charge with the mission has to think to have some kind of theme to the mission and organise opportunities for mission participants to meet not only with potential customers but also with potential partners. A component of the mission would be educational presentations by mission participants. An example of this type of mission is the health services missions Malaysia has led to Cambodia and Brunei in order to convince local health practitioners to refer patients to Malaysian hospitals for specialised care.
- *Cross-sector trade missions.* These trade missions would be comprised of service firms from several industries willing to work together to provide "bundled' services.
- *Partnering events.* The purpose of such an event is to encourage collaboration between organisations, either across national boundaries or across sectoral boundaries. Such events can be held for service firms and/or for service industry associations.
- *Media tours.* The purpose of this type of event is to promote the profile of service firms' capabilities in the media of developed markets where media coverage confers credibility. The structure would be to identify a small group of service firms with unusual capabilities and

successes, and then to hire a public relations firm in the target market to arrange a series of media interviews with those firms.

- *Incoming missions.* Incoming missions from target export markets provide a low-cost opportunity to acquaint potential foreign customers with the capabilities of service suppliers. The structure would be to have an business event at which service suppliers could provide useful information, followed by a networking reception.

- *Networking with investors*. Sometimes foreign investors import services (especially professional and business support services) because they are unaware of local capabilities. Providing a structured opportunity to highlight national expertise gives the local firms the chance to engage in exporting.

- *Missions to international finance institutions*. These missions would be comprised of service firms that provide the types of services currently being funded by international financial institutions such as the World Bank, the regional development banks, or bilateral aid agencies. The purpose would be to apprise the officers of the capabilities of country's service firms both to deliver IFI-funded projects in their country and also to deliver quality services in other donor-funded markets.

6. Innovation and Services Export Readiness in EU Countries

Export readiness is the capability to succeed in export markets. Innovation links to export readiness in several ways. First, in order to resource a company export initiative effectively, it may need to introduce internal organizational innovations to handle different customer demands. Second, the manager will find that his company will profit the most in an export market if it is offering a service or service delivery process that is new to that target market. Third, in order to adapt to the cultural norms of the target market, it is very likely that the company will need to change features of its service or the manner in which its service is delivered (again an innovative activity).

Exporting can strengthen overall competitiveness if the company is able to select target markets where the services it can offer are a good match with local needs and cultural values. Foreign customers can offset low demand in a home market and may provide hard currency earnings. However, because of cultural variables, it is all too easy to misread customer needs, motivations and priorities. The same is true with local partners and staff.

To improve a service company's chances of export success through innovation, there are several strategies to put into practice:

- It has to target ethnic subgroups with cultures similar to the services provider.
- It has to target expatriates from the services provider's home country who are living in the target market.
- It's very useful to find a local partner and let them lead on issues of services design and delivery that are culturally specific.
- It's considered to be efficient to hire local staff for the lead front-office, high-contact positions.

Entry into new export markets can be speeded up through strategic alliances with local service providers. A local partner can vouch for the service exporter capabilities and can provide it with ready-made networks. Strategic allies can also help exporter to succeed in third markets due to their reputation and profile.

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REALITIES AND PERSPECTIVES

SMEs and International Competition: Empirical Evidence for Romanian SMEs

Ionica Oncioiu[1], Mihail-Silviu Pocora[2]

Abstract: One of the issues covered by the current debate concerns the future of the national economy in a world in an accelerated process of globalization. It is, in fact, the transition from national economy to the global economy as homogenous global space in which national economies are melting and whose background includes a variety of positions since the companies compete globally and not states, and structuring is determined by the dynamic global economy industries and firms efforts to create competitive advantages. This paper has as main objective to understand and to approach the topic of the SMEs in the international competition, which, being considered a significant resource for those an organization is fundamental for the creation of the wealth since an appropriate administration takes place a series of benefits. Is it important to improve innovation potential, quality and operational excellence?

Keywords: competition; SMEs; internationalization; economy

JEL Classification: F23; D22; O12

1. Introduction

Michael Porter argues, in turn, in his "Competitive advantage of nations", the effort to assess the competitiveness of a nation must consider the standard of living result, because we can not talk about a competitive nation without that country's population has a level high standard of living. Definition, for example, strictly as part of market competitiveness, worldwide, which covers a country's exports bring limited and unproductive approach, because it takes into account the economy's ability to create the nation's welfare.

Increasingly, we are witnessing changes in the business world does not resemble the past. This is why practitioners advocate for small and medium reinvention from that recognized principles have no relevance today. Competitiveness crisis facing the sector has not transient. Adam Smith's world and how it did business are a paradigm of yesterday. It turned out that a gradual transformation is illusory moment when radical transformation cannot be postponed.

Recent theories and show new aspects related to the internationalization of business and, especially, the internationalization of SMEs, which raises a growing interest in academia and business in Europe and worldwide, while the transformations taking place in the economy beginning XXI century tend to bring small and medium enterprises at the forefront of economic development, giving them a new status.

As regards SME internationalization motivations, the literature associated to the two established categories of motivations for reactive and proactive type: The first category of motives which are reactive response to the pressures coming company in the business, such as: competitive pressure, lower domestic sales, excess capacity in relation to market opportunities at home, over-determined by off factors, the availability of foreign markets, etc.;

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The second category of motivations underlying voluntary commitment to international business in order to capitalize on competitive advantages, among them including: access to material and financial resources abroad, reducing costs by harnessing the benefits of economic or trade policy or foreign countries increasing the production scale, technological advance capitalizing held in some areas, management of external market orientation, etc.

In our opinion internationalization and innovation besides Romanian SMEs lack the periodic review evaluation of their position in the market, according to the results of these tests, setting medium and long term strategies. This refers to how powerful the SME market position, if this position is expected to improve or contrary to deteriorate, which is the position stands firm against rivals from the market (usually the local market) and each important competitive variable, which is the company's capacity to defend its position opposite the probable changes in the field of trade and competition anticipated movements.

2. The Romanian SMEs in the International Competition: Stakes, Advantages and Limits

Increasing competition is the reality of sharp pressure on small and medium enterprises worldwide. To compete in niche markets for these companies bring unique balance resources, values and managerial capacities. The distinctive competencies they strive to build a competitive advantage relative to competitors and achieve superior financial performance, to ensure their access to some of the resources available to society. Capacity of larger firms to reduce costs through economies of scale effect, to support expensive research programs, SMEs oppose them greater flexibility and adaptation to market changes occur, greater mobility in the satisfaction of personal needs.

Innovation can be defined as new or innovative solutions in international competition. It provides small competitive advantage in that it provides, for a period of time, a monopoly to exploit unique trait obtained as a result of innovation. Furthermore, systematic innovation is probably the only indispensable lever for sustainable competitive advantage for small and medium enterprises.

To form an overview on SMEs in Romania, knowledge of nature in their innovation activities carried out are a starting point in analyzing the competitive advantage. Statistical data (Figure 1) for 2008 showed that innovation efforts of SMEs have focused mainly on new products (37,49%), new technology (28,75%), management and new marketing approaches (24,02%). These figures illustrate how Romanian entrepreneurs are becoming more aware that, in the context of growing competition in all areas of activity, innovation is the most effective way to ensure competitiveness.

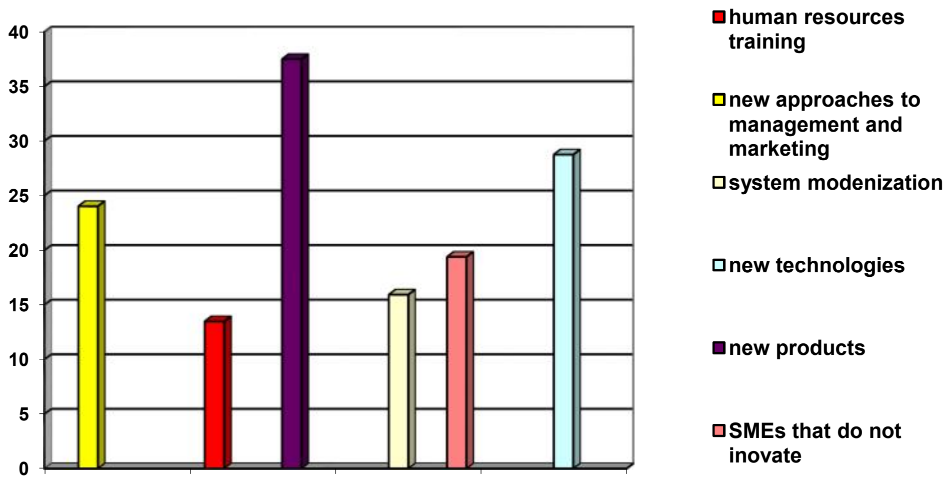

Figure 1. Nature of innovative SMEs

Given the size of firms on innovative efforts is found that the extent to which companies aimed at improving staff training system and amplification increase with size businesses. Activities to introduce new products and improved uptake of technologies are more common in small organizations and small for micro-enterprises. Medium enterprises recorded in greater managerial and marketing approaches us.

Considering these aspects, it can be concluded that the processes of renewal of products and services are relatively common in most SMEs in Romania. Analysis by the results obtained in 2009 compared to 2008 reveals that companies with superior performance in innovation level is higher than the rest of economic units, which means that the business potential is influenced by the call to new technology and concerns to the managers compliance with the acquisition communitarian.

If small and medium enterprises in Romania, however, the emphasis is on motivation proactive type, and in particular on management involvement.

I also raised a number of essential changes in typology and structure of small and medium enterprise sector, which have a more pronounced international dimension - its leading companies in sectors of the economy, virtual enterprises; integrated enterprises value added chain of large enterprises, business networks or clusters that raises a growing interest in literature.

Internationalization of SMEs is achieved, in principle, gradually, by going through several stages, which define as many types of companies with international activity and expressed specific motivations to participate in the global market. Studies from the 90s of last century shows that some firms, namely SMEs, there is a gradual process, the stage of internationalization, they have international activities since its establishment right to enter the market under the large geographical distance, to penetrate in several countries simultaneously, to form strategic alliances and joint ventures without the benefit of previous experience, etc. Therefore developed a new theory to explain the current process of internationalization, which is based on these developments and is centered on small and medium enterprises, which is currently in the process of consolidation. It is also generally agreed that none of these models alone can explain the dynamics of internationalization of SMEs, especially those leading sectors of the economy, whose main resource tends to be more represented by knowledge. It is often suggested a comprehensive approach that takes into account several models and theories to allow deepening phenomenon. However, most studies devoted to prioritize one of the models and the approach is still dominant stage. At the same time essentially notes and changes in typology and structure of small and medium enterprise sector, due to these new developments.

If the European Union special attention was given to the following types of SMEs: SMEs in the sectors of top technology and media have affinity with nature developed Internet business and new market developments, small and medium exploit the opportunities offered by electronic commerce, especially in services - sometimes called cyber-companies, small and medium-sized integrated value-added chains of large companies are forced to innovate under pressure from major customers.

An analysis by the European Commission to member countries in May 2009 showed that 33,3% of medium firms and 32,2% of small generating over 10% of their turnover from new or renewed during the last two years. These weights are close to that of large enterprises (35,8%), which prove that European SMEs are becoming increasingly innovative.

In the U.S., SMEs account for 86% of all exporting firms. In the last 10 years, the number of small and medium exporters tripled, contributing 31% of total exports.

Studies by the OECD show that the share of innovative SMEs in the total national companies varies between 30% and 60%, depending on the member country. On average, they perform research and development at a rate and a lower level of large companies, but prove more innovative redesign of products or services to better meet market demand, the introduction of new organizational forms that increase productivity or in inventing new techniques to expand the market.

Worldwide, can be identified a small segment with an exceptional growth rate, which is positioned within the first 5-10% of companies in the world expanding. In many countries, the volume of jobs created by these SMEs is higher than that achieved large size firms. They are based on new technologies and developing impressive research activities. These SMEs are found in industries knowledge-based high-tech and in regions where there is an intense economic activity. They play a pioneering role in developing new products and markets, bringing an outstanding contribution to the creation of a new type of global economy, one based on quality, professionalism and creativity of the workforce.

So, in their haste to gain new markets or being forced to constantly reduce costs and increase quality, large corporations left uncovered important market niches that can be filled more effectively by small and medium enterprises. Therefore, intelligent strategies allow small businesses to grow despite increasing competition worldwide and marked the growing strength of large companies. SMEs can achieve this either independently, by promoting products / services differentiated from those of large companies, either by working with large companies as subcontractors, or by building alliances to multiply their potential.

On the other hand, local or international alliances with big companies, strong SMEs can attract financial capital or material resources, distribution channels and internationally recognized brand names, which would not otherwise have access or would be had to make costly investments. In these alliances, small firms gain market niches, assimilates new technology or new equipment purchases performance. Access to capital is also an important benefit of this collaboration, many SMEs managed lately to obtain significant funding from sales to large firms of property rights for inventions that were made, but not had its own resources necessary to implement them.

Alliances of SMEs but is not limited only to those with big companies, they carried with companies of similar size. The sharing of infrastructure, technology and supply and distribution channels, allied SMEs manage productivity, competitiveness and ultimately profitability.

But, it is necessary to be taken into account that innovation is a prerequisite for survival in the market for both companies in countries with advanced economies and for those in process development, it can change quickly today rankings that seemed unshakable. Dynamics dizzying technical progress in the current era is that companies and economies that until recently have excelled in certain areas they could lose global primacy over night the rate of introduction of innovation falls.

Relevant aspects of the table are evaluated in terms of implications for business strategies, supplemented or restricted and used under the terms of each company. This type of analysis allows the positioning of the SME in relation to the competition, highlighting both their strengths and those of rivals.

Table 1. Competitive position of SMEs

Pluses(+):	Minuses(-):
- Competitive advantages; - High customer loyalty; - Well defined market strategy; - Well differentiated product offer; - Increasing market share; - High flexibility to changes in demand; - Other.	- Poor competitive advantage; - Target of rival attacks; - Inadequate distribution system; - Poor response to changes in demand; - Bad reputation among customers; - Other.

Once the mission enterprise, assess business potential and positioned against the competition, the next step is to transpose the general objectives of the mission, to measure company performance. These general objectives that are established for longer periods of time vary depending on the specific terms of reference, usually focuses on SMEs: profits, turnover, market share, etc.

A rigorous system for measuring their achievement, supposedly basic parts: expressing indicator (turnover, profit, market share, etc.) unit (lei, %, units, etc.) and the (actual size). The general objectives of the Romanian SMEs can be ranked in relation to their scope of reference and hierarchical level to which they are established, the following sequence:

- Strategic overall objectives set out in the entrepreneurial SME, explicitly (usually in medium-sized companies) and implicitly (in the micro and small class), in relation to key areas of activity, they constitute the starting point objective in establishing the network of the company;
- Tactical objectives (derived) regarding the allocation of resources, they also usually set by the developer in micro and small and mid-level managers respectively of medium-sized companies;
- Operational objectives (operational) that set the business in micro-firms respectively lower level managers in medium-sized companies, they relate to specific activities, current, which serve to achieve strategic and tactical objectives.

However, the objectives are the starting point in formulating strategies, providing the criteria against which, will be evaluating and measuring the results. These companies would be beneficial to gravitate as far as possible, around strategies difficult to imitate and / or offset, while starting from the premise that whenever one or more of the competing SMEs initiated by one nine "offensive" strategy, competitive pressures will be activated in November.

Basically, the behavior of each "actor" in the market, that market influences, and this in turn affects their behavior. An important role in this regard plays various rivalries between SMEs, which appear in different market sectors. Extrapolating observations made by A. Thomson and A. Strickland on Romanian SMEs can formulate the following conclusions:

- Rivalries between SMEs tend to increase as the number of competitors increases and firms are close in size and potential;
- Rivalries are usually stronger when the growth rate of demand for our products is slow;
- Rivalries become more volatile and unpredictable, the more diversity of SMEs according to priorities and resources, etc., is higher.

Design strategies will match the specific conditions under which each company operates. In this sense, scientists have developed various classification schemes; to better define the types of strategies. Experience has shown that the wide range of strategic options can be grouped according to the general objectives set out in a few basic types known: growth strategies, maintenance strategies, defensive strategies and combined strategies, most of themselves and making their own choices achievement.

Basically Romanian SMEs are very poor offensive strategies involving:

- Anticipating issues that may create a competitive advantage;
- Planning of movements designed to surprise the opponents and give them less time to launch similar initiatives.

In preparing their strategies, SMEs can take account of a famous series of principles, which although does not guarantee success, increases the likelihood of:

1. Principle of critical masses - the concentration of actions in times and places critical to achieve a decisive effect;

2. Offensive principle - that exploiting the weaknesses of "enemy" to maintain control of the situation;

3. Principle of surprise - that such a choice of when and where action to capture the opponent unprepared.

In a highly competitive market as one that enables SMEs generally, each of which can become not only the subject, but also the object of attack rivals, be they companies or new entrants existing companies. Therefore, the purpose of defensive strategies is to minimize the risk of SMEs to be attacked, or decrease the intensity of the attack.

Arsenal defensive strategies is vast, from those aimed at blocking access routes to competitors (which lends itself to a small extent but small and medium enterprises), to those designed to convince potential attacker, the effort is too high in relation to the effect (announcement intent to preserve market share, maintaining the profit share less attractive to outsiders, etc.). The benefits of successful defensive strategies are difficult to measure.

Design strategies are a necessary condition but not sufficient to ensure survival and even growth of SMEs. It is therefore important that the developer be able to translate strategic vision into practice. It should be noted, however, that in a small and medium enterprises, implementation is facilitated by its structural and functional flexibility, the concentration of power in the entrepreneur and the exercise by it of an active role authoritatively on his subordinates. The implementation of the various strategic options presented, concerns mainly the development of market strategies and financial strategy specific to each category of firms analyzed. Algorithm strategic management of SMEs can be developed on two vital directions listed: marketing and finance.

Attitude towards risk entrepreneur also has a considerable influence on strategy. Thus, those with reduced capacity to take risks will opt for so-called strategy mostly “safe”, which minimizes the impact of environmental threats; the profits are not spectacular, but acceptable. Often, the entrepreneur with risk aversion insists on addressing the financial perspective of the business, preferring financing from own resources of borrowed resources. He avoids as much as possible, significant financial commitments until the likely effects of the uncertainty is minimal. Moreover, innovations of any kind of business are interpreted as too risky, compared with the situation. Such places great value on entrepreneurial strategies “conservative” or defensive, designed to minimize risks.

A small entrepreneur with a high capacity to take risks, more proactive strategies “offensive”, with increased chances of profit, more demanding, challenging but also risky. For him, innovation is better imitation and offensive defense is better. The Romanian economy is already operating in an open and competitive. There are a number of measures that can help maintain the competitiveness of SMEs continue to operate on the domestic market more competitive and increasingly important, although often neglected in unrealistic. It would be beneficial for Romania's economic development undertakings in the sector to succeed domestically and at the same time, turn to international markets through appropriate strategic approach to find niches, avoiding direct competition with large companies on field market segment that it dominates.

3. Conclusions

We believe that a more general level, the shift from internationalization to globalization of economic life - one of the defining characteristics of the evolution of global business in the second half of the twentieth century - has a strong influence on SMEs and their internationalization. The influence is mixed, both negative, the top competition, increased business turbulence, but positive, facilitating access to new markets, supply and sales, accelerate the transfer of know-how, access to new technologies, partnerships and strategic alliances at international level, etc. Literature and actual developments of SMEs shows that it lies rather in a position to counter the negative effects of economic internationalization and to capitalize on the positive, especially in the peak areas of the economy.

In conclusions, the competitiveness of SMEs is therefore interdependent national business environment developments and political environment, business clusters, and development of industrial zones and internationalization of economic processes of globalization. Moreover, the internationalization of SMEs internationalization evolves with the national business environment.

In the context of competitive markets XXI century, it becomes imperative need for strategic approaches to entrepreneurial survival and success of SMEs soliciting effective business strategies and actions. Strategic entrepreneurship is applicable to new SMEs and existing firms in the market, thereby facilitating the positive impact of the efforts of companies to identify the most advantageous opportunities with profit potential of the highest, according to available resources.

According to Strategy 2020, Romania will harmonize legislation so as to enable promotion of the internationalization of SMEs and improve access to the single market. Entrepreneurship would need to be developed by concrete policy initiatives, including a simplification of company law (bankruptcy, the status of private companies, etc.) and initiatives to enable entrepreneurs to restart after bankruptcy. This gives in particular small means to participate fully in the Single Market.

After going through old and new concepts about the company and its competitiveness, conclusions can be drawn are very simple: from small and medium enterprises has been a competitive power market, whose springs are less predictable, but requires that any business that wants to survive to develop into a feature some form of uniqueness. Ultimately, the only sustainable competitive factor is innovation, which in turn depends on the quality of human resources and management.

It is difficult to place small and medium enterprises in domestic and foreign competition because they are less developed than in other transition countries. Their contribution to the growth performance of the Romanian economy is still needed. The influence is mixed, both negative, by the superior concurrence, the increase of the turbulence of the businesses environment, and positive, facilitating the access at new markets of provision and sale, the acceleration of the know-how transfer, the access at new technologies, partnerships and strategic alliances at international level, etc.

The full potential of the SME sector contributing to employment growth and competitiveness policy requires consistent and favorable development in general. In some moments, it is necessary for the state to intervene to offset the adverse consequences of market registered small businesses. A condition for the success of Romanian SMEs is that those who decide its fate to look into the future, not past.

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REALITIES AND PERSPECTIVES

Quantitative and Qualitative Aspects of Maritime Transport Services

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Abstract: Through our study we want to approach some aspects of maritime transport services market in the current global crisis. This approach takes into account, firstly in determining how transportation fleet reacts to the evolution of world trade and on the other hand to clarify the tendency of increasing transport capacity even in crisis conditions. Therefore we intend to address in detail the evolution of the global fleet and world trade. Research conducted by econometric models at different times, as fleet capacity is a reaction at different times, due to a production cycle of about two years in shipbuilding. I used the software Eviews because it allows easy data processing.

Keywords: world fleet; the maritime world trade; world fleet performance indicators

Jel Classification: L91; R48

Presentation

Offer of shipping increasingly evolved during 1990-2010, as you can see in the graphic number 1, the tendency in which the global fleet responded to the increases in world trade carried by sea.

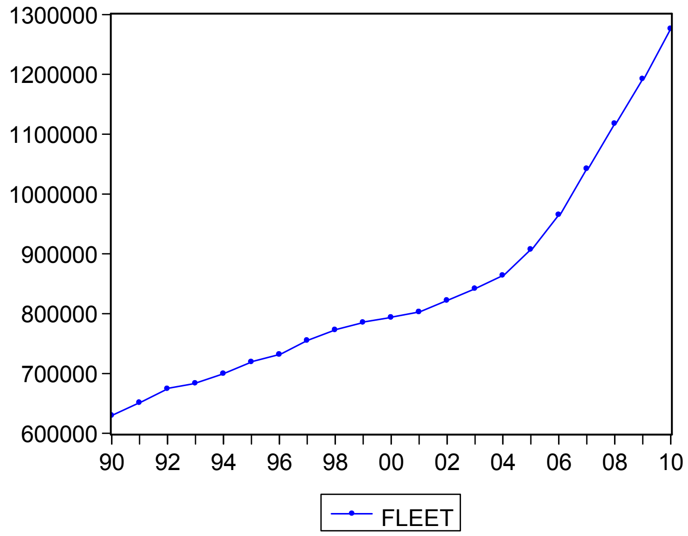

Figure 1. World fleet evolution during 1990-2010 - in tons dwt[3]

In terms of dimensional fleet in a year (t) is depended on the fleet from a previous year (t-1), the new transport capacity in exportation entered when (t-1) and the decline in exportation due to various

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[3] UNCTAD Review of Maritime Transport 2011

reasons, such as sales for scrap, losses caused by maritime accidents, etc. Thus, for the period under consideration was recorded the following situation:

FLEET(t) = 1.092323475*FLEET(-1) + 0.4914855472*DELIVERES(-1) - 0.9697285654*SCRAP (-1) - 46.28292488; (1)

FLEET- represents the fleet in year(t)
FLEET(-1) represents the fleet in year (t-1)
DELIVERES(-1) new transport capacity entered into service in year(t-1)
SCRAP(-1) transport capacity out of operation in year (t-1)

Table 1. Results obtained on the Eviews program

Dependent Variable: FLEET
Method: Least Squares
Date: 03/05/12 Time: 14:50
Sample (adjusted): 1995 2011
Included observations: 17 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FLEET(-1)	1.092323	0.062712	17.41821	0.0000
DELIVERES(-1)	0.491486	0.321752	1.527529	0.1506
SCRAP(-1)	-0.969729	0.167368	-5.793983	0.0001
C	-46.28292	33.58173	-1.378217	0.1914

R-squared	0.999447	Mean dependent var	862.3412
Adjusted R-squared	0.999320	S.D. dependent var	199.3134
S.E. of regression	5.199182	Akaike info criterion	6.337204
Sum squared resid	351.4094	Schwarz criterion	6.533254
Log likelihood	-49.86623	F-statistic	7833.600
Durbin-Watson stat	2.282353	Prob(F-statistic)	0.000000

Table 2. Empirical values, adjusted and chart residues

<table>
<tr><th>Actual</th><th>Fitted</th><th>Residual</th><th>Residual Plot</th></tr>
<tr><td>656.3</td><td>656.671.126.307.132</td><td>-0.371126307132528</td><td>| . * .
|</td></tr>
<tr><td>668.1</td><td>671.652.404.740.135</td><td>-
355.240.474.013.497</td><td>| .* | .
|</td></tr>
<tr><td>686.3</td><td>683.784.578.430.662</td><td>251.542.156.933.834</td><td>| . |* .
|</td></tr>
<tr><td>707.1</td><td>704.677.121.527.021</td><td>242.287.847.297.884</td><td>| . |* .
|</td></tr>
<tr><td>717.3</td><td>719.917.297.319.317</td><td>-
261.729.731.931.719</td><td>| .* | .
|</td></tr>
<tr><td>731</td><td>728.107.132.578.115</td><td>289.286.742.188.496</td><td>| . | *.
|</td></tr>
<tr><td>749</td><td>751.908.412.403.909</td><td>-29.084.124.039.091</td><td>| .* | .
|</td></tr>
<tr><td>760.6</td><td>762.948.920.487.699</td><td>-
234.892.048.769.929</td><td>| . *| .
|</td></tr>
<tr><td>777.7</td><td>778.404.125.126.436</td><td>-0.704125126436026</td><td>| . *| .
|</td></tr>
<tr><td>804.9</td><td>804.198.954.153.817</td><td>0.701045846182666</td><td>| . |* .
|</td></tr>
<tr><td>849.6</td><td>848.823.957.584.145</td><td>0.776042415854839</td><td>| . |* .</td></tr>
</table>

			|
907.6	906.626.614.077.091	0.973385922908747	| . |* . |
969.4	97.093.903.470.545	- 153.903.470.545.029	| . * | . |
1040.8	104.075.578.057.349	0.0442194265101534	| . * . |
1117.1	111.384.561.013.652	325.438.986.348.341	| . | * . |
1213.3	120.120.240.386.867	12.097.596.131.325	| . | . *|
1303.7	131.533.652.598.039	- 116.365.259.803.893	|* . | . |

Table number 1 gives us information about the regression coefficients, which can tell us the following things:

- Constant term C is equal to -46.28292 and has a standard error equal to 33.58173;
- FLEET coefficient (-1) = 1.092323 express fleet growth (t) due to increased fleet of (t-1) with a unit which has a standard error equal to 0.062712;
- DELIVERES coefficient (-1) = 0.491486 express fleet growth (t) due to increased entry of operation of ships (t-1) with a unit which has a standard error equal to 0.321752;
- SCRAP coefficient (-1) = -0.969729 expression of decreased fleet(t) following the removal of ships operating (t-1) with a unit which has a standard error equal to 0.167368;

Table number 2 presents the empirical values and adjusted based on the regression and the coefficients mentioned above, and also shows the residual values and their graphic.

If this model wanted to show that the fleet is a system with inputs and outputs, the increase in transport capacity due to the fact that inputs are greater than outflows from operations. In the following, we want to establish that not the entire existing fleet in service at a time and participate in transportation services. We take in consideration that at some point fleet comprises a fleet of both active and inactive. Inactivity transport capacity is due to multiple causes, like decreased levels of the market of transport services which determinate unattractive vessel operation, the low price of scrap disposal, shipbuilding prices, etc. (Puscaciu, 1999)

Thus, in the analyzed period, the fleet on these components has evolved as shown in Table No. 3.

Table 3. World-fleet structure, involves three main types of ships at the end of the year

		1990	2000	2004	2005	2006	2007	2008	2009	2010*
Inactive fleet	mil dwt	62,4	18,4	6,2	7,2	10,1	12,1	19,0	12,0	14,4
Active fleet	mil dwt	203,8	568,0	660,8	690,7	763,7	818,6	857,2	918,3	923,1
Inactive fleet	%	23,44	3,14	99,07	98,97	98,69	98,54	97,83	98,71	98,46
Active fleet	%	76,56	96,86	0,93	1,07	1,31	1,46	2,17	1,29	1,54

- Data from April 1, 2010;
- Fleet of tankers and bulk carriers is expressed by more than 10,000 dwtsicargouri and by 5000 dwtsipeste;
- The surplus of tonnage is defined as tonnage that is not fully utilized due to partial exploits or non exploits for various reasons[1].

In the data from the table below we can observe a significantly higher share of total active fleet, phenomenon due to a favorable market situation of transport, more precisely an appropriate request, but also increase the price of new shipbuilding.

[1] UNCTAD Review of Maritime Transport 2011

Table 4. The impact of under spending on the indicator ton-miles per dwt depending on the size of the container ships in 2008-2010

Size ship in TEUs	% of services in operation in 2010	Number of ships in 2010	Number days by sea 2008	Number days by sea 2010	Miles traveled per year (% Change)	Dwt capacity used effectively (% Change)	Tons-miles per dwt 2008	Tons-miles per dwt 2010	% Change ton-miles per dwt
1000-2000	11,60 %	278	241	266	-10,40	4,10	19,00	14,70	-22,50
2000-3000	15,90 %	398	247	268	-8,50	2,80	20,90	16,70	-19,90
3000-5000	33,30 %	677	250	276	-10,40	5,80	23,30	17,80	-23,80
5000-8000	59,70 %	432	251	292	-16,30	10,20	25,30	17,30	-31,70
8000 +	80,00 %	266	259	298	-15,10	-	25,10	16,60	-33,90
TOTAL	34,80 %	2051	250	280	-12,00	7,00	22,80	16,90	-26,00

- assuming a 10% decrease in demand (tons transported) for all vessels (Cariou, 2010)

Some comments on the table number 4 is required:

- a reduction in transport demand determine under-utilization of the fleet, in this case the fleet of container vessels;
- The reduction in demand has a different impact on vessel size, as larger ships are more vulnerable to this trend;
- Reduce the amount of performance, as measured by ton-miles per dwt unit;
- Number of days at sea grows march, despite reducing the level of performance.

We analyse the dependent of the fleet and maritime tonnage, which expresses the commerce carried by sea. Hence we present results given when the fleet is analyzed as a function of tonnage from the same period, and cases where the fleet is a depending on the tonnage of shipping in the prior period. (Stopford, 2009)

After processing with the Eviews software we get:

Table 5. Results obtained on Eviews program for fleet (t) and tonnage (t)

Dependent Variable: FLEET
Method: Least Squares
Date: 03/05/12 Time: 15:33
Sample: 1990 2010
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TOTAL_COM_MARITIM	112.5602	9.437037	11.92749	0.0000
C	176816.5	57641.59	3.067516	0.0063

R-squared	0.882182	Mean dependent var	844217.9
Adjusted R-squared	0.875981	S.D. dependent var	180121.7
S.E. of regression	63432.38	Akaike info criterion	25.04373
Sum squared resid	7.64E+10	Schwarz criterion	25.14321
Log likelihood	-260.9592	F-statistic	142.2651
Durbin-Watson stat	0.360628	Prob(F-statistic)	0.000000

Table 6. Results obtained on Eviews program for fleet (t) and tonnage (t-1)

Dependent Variable: FLEET
Method: Least Squares
Date: 03/05/12 Time: 15:47
Sample (adjusted): 1991 2010
Included observations: 20 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TOTAL_COM_MARITIM(-1)	117.8905	9.462262	12.45902	0.0000
C	170534.5	56487.84	3.018959	0.0074
R-squared	0.896090	Mean dependent var		854930.0
Adjusted R-squared	0.890317	S.D. dependent var		177805.7
S.E. of regression	58886.33	Akaike info criterion		24.89924
Sum squared resid	6.24E+10	Schwarz criterion		24.99882
Log likelihood	-246.9924	F-statistic		155.2271
Durbin-Watson stat	0.486928	Prob(F-statistic)		0.000000

Table 7. Results for Eviews program the fleet (t) and tonnage (t-2)

Dependent Variable: FLEET
Method: Least Squares
Date: 03/05/12 Time: 15:52
Sample (adjusted): 1992 2010
Included observations: 19 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TOTAL_COM_MARITIM(-2)	123.7510	7.389753	16.74629	0.0000
C	160600.1	43256.49	3.712740	0.0017
R-squared	0.942845	Mean dependent var		865648.4
Adjusted R-squared	0.939483	S.D. dependent var		175914.6
S.E. of regression	43275.26	Akaike info criterion		24.28785
Sum squared resid	3.18E+10	Schwarz criterion		24.38727
Log likelihood	-228.7346	F-statistic		280.4383
Durbin-Watson stat	0.468963	Prob(F-statistic)		0.000000

Tables (5) - (7) show that as maritime tonnage shifting R-square coefficient of determination increases, which means a better quality of the model, also reduces the standard error of regression. In other words, the world fleet is better adjusted at the global maritime tonnage with a time delay, estimated in terms of two years time to build a ship. Dependence of the maritime fleet and tonnage can be analyzed as following: tons transported per dwt unit, which is an indicator for evaluating the fleet. Given the evolution of this indicator in the analyzed period of time we suggest a cubic function. Results are presented in Table number 8.

Table 8. Results obtained on Eviews program for dependent of tons transported per unit time depending dwt

Dependent Variable: TON_DWT
Method: Least Squares
Date: 03/05/12 Time: 15:40
Sample: 1990 2010
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
T	-0.380029	0.088908	-4.274422	0.0005
T^2	0.060212	0.009277	6.490664	0.0000
T^3	-0.002048	0.000278	-7.376788	0.0000
C	6.865435	0.231217	29.69260	0.0000

R-squared	0.898693	Mean dependent var	6.975182
Adjusted R-squared	0.880815	S.D. dependent var	0.634659
S.E. of regression	0.219105	Akaike info criterion	-0.028890
Sum squared resid	0.816117	Schwarz criterion	0.170066
Log likelihood	4.303350	F-statistic	50.26870
Durbin-Watson stat	1.751534	Prob(F-statistic)	0.000000

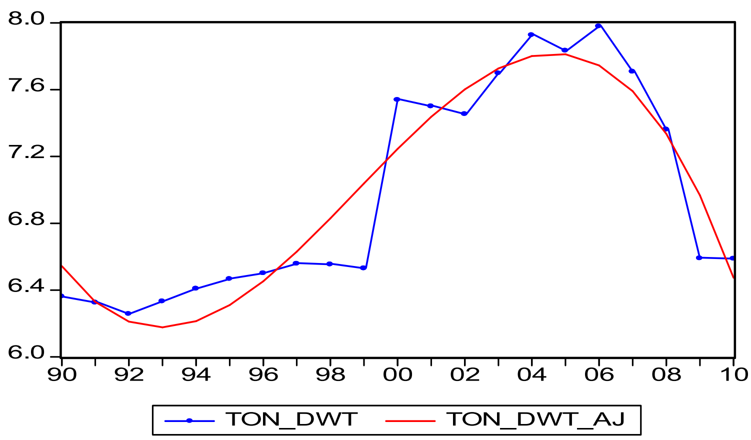

Figure 2. Evolution indicator dwt tons transported per unit

TON_DWT = -0.3800294961*T + 0.06021206382*T^2 - 0.00204776204*T^3 + 6.865434571; (2)

Graph number 2 shows a decline lately in the evolution of tones of freight transported by supply unit of the fleet, which shows a reduction in the demand for shipping. Recent years following the global crisis is affecting shipping and services[1].

For foreshadowing future trends in the market of transport services, we present in table number 9 the status of new ship orders, resulting in sharp drop in ship orders for bulk carriers and tanks and the total fleet, except other vessels like port container ships.

[1] UNCTAD Review of Maritime Transport 2011.

Table 9. Evolution of new ship orders million dwt[1]

Year	Tanks	Chemical transport ship	Bulk carriers	Combined transport ships	Other	Total
2002	17,7	1,6	21,9		8,4	49,6
2003	47,9	1,4	27,9		27,5	104,7
2004	34,0	2,2	28,8		28,1	93,1
2005	24,0	0,9	16,8		25,9	67,6
2006	74,7	6,8	39,0		25,7	146,2
2007	42,1	10,8	161,6	3,4	52,4	269,6
2008	47,4	2,7	91,4		20,4	161,9
2009	10,3	0,8	33,6		1,5	46,2
2010	38,5	1,6	83,5		10,8	134,4
2011	9,2	0,5	28		25,7	63,4

Conclusions

Following this approach can establish a set of conclusions:

- World fleet until now has seen capacity increases despite global crisis, this trend appreciate because of tendency in adjusting to the demand for transport fleet;
- World fleet segments, formed by the type of ship reacts differently to crisis;
- Certainly in the next few years could lower global fleet segments, tendency based on reducing new ship orders;
- Identification of relevant trends in the market of transport services requires the use of econometric studies.

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REALITIES AND PERSPECTIVES

The Relationship between Monetary Policy and Financial Stability in the Context of the Recent Global Crisis

Angela Roman[1], Alina Camelia Sargu[2]

Abstract: In recent years, pre-crisis years, the loans granted to household experienced an extremely accelerated dynamic in most new EU member states. Such a development has led to an increase in the degree of bank indebtedness of the households and to considerable macroeconomic and financial imbalances. The current crisis has stopped the rapid growth of the loans granted to households and has led to worsening financial situation of households and a significant deterioration of the soundness bank indicators. In this context, the purpose of our paper is a comparative analysis of the main characteristics of the evolution of bank loans granted to household in the new EU member states (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Romania), of the vulnerabilities caused by the fast increase of the bank indebtedness of the households, and the implications of the current crisis..

Keywords: Credit growth; New EU member countries; loans to households; vulnerabilities; global economic crisis

1 Introduction

Before the beginning of the current global crisis, most of the new EU member states that we included in our research (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania) have registered a rapid growth of the bank loans, especially of those granted to households. Such evolution was generally considered a progress in terms of making up for the structural and convergence gaps; however, on the other hand, this led to the occurrence of considerable macroeconomic and financial vulnerabilities.

The current global economic crisis had an extremely negative impact on households in most of the new EU member states. One of the main channels by which the current crisis worsened the economic and financial status of numerous households is that of the financial markets, due to the limited access to bank loans and to assets value decrease, especially real estate assets.

Our paper it is structured in five parts: the first part includes introductory remarks on the importance and relevance of the approached topic; the second part it is dedicated to the literature review; the third part highlights the characteristics of the financial intermediation process in the new EU member states considered by our research, especially from the point of view of loans granted to households; the fourth part of the paper reflects the effects of the rapid growth of the loans granted to households, whereas the fifth part emphasizes the current crisis effects and the challenges that the decision makers have to face in this context. The paper ends with several conclusions.

The research methodology used in our research starts with the literature review, in order to point out the importance of the topic approached by our paper. The analysis conducted in this paper is based on official statistics from the ECB, other central banks, the IMF, and different reports and researches.

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Based on the methodology, the paper highlights the central importance of the market of bank loans granted to households for a country's economic and financial stability.

2 Literature Review

In the last few years preceding the beginning of the global economic crisis, most of the Central and Eastern European countries have recorded an accelerated dynamic of the bank loans, especially of the loans granted to households. Such an evolution drew the attention of a significant number of researchers, who were concerned with both identifying its determinant factors and finding the answer to the question whether the rapid growth of the bank loans illustrates a progress in terms of financial convergence or it is a non-sustainable increase, which leads to a series of macroeconomic and financial imbalances. Thus, Égert, Backé and Zumer [7] analyzed the private credit to GDP equilibrium in 11 Central and Eastern European countries, for the period 1990-2004, and concluded that, on the whole, the private credit to GDP ratio in CEE countries did not exceed the equilibrium level, although they registered a considerable credit level growth. Also, Kiss, Nagy and Vonnak [19] analyze credit growth in Central and Eastern European countries using panel estimation for equilibrium level of private credit. Although the research results do not show exactly the existence of a credit boom in the analyzed countries, the authors underline the significant importance of pursuing the credit dynamics within macroeconomic policies.

Comparative, the research performed by Backé, Égert and Walko [3] on new EU member states and Croatia reveals that, in some countries, the private credit percent in the GDP is close to the equilibrium level, whereas in other countries this percent is rather high compared to the economic grounds.

Given the current world crisis, in the most countries it is registered a significant slowing down of the bank loan increase rate, which made researchers become increasingly concerned with identifying its determinant factors. Therefore, based on a sample covering over 80 countries (including the new EU member states), over the period January 2002 to May 2009, Aisen and Franken [1] find that the bank credit booms before the crisis and the GDP growth rate reduction affecting the main trading partners are the most important factors determining the bank credit slowdown phenomenon after the onset of the crisis. Comparative, Bakke and Gulde [4] pointed out that supply shocks were the main factor determining the drop in cross-border lending to emerging markets during the current crisis.

3. Stylised Facts about the Bank Lending Activity in the New EU Member Countries

The countries considered in our research have enjoyed a significant bank lending development over the last decade. This evolution was determined by the action of both external (an international economic environment abounding in cash, low risk aversion and low interest rates, as well as easy access to funds) and internal factors, respectively a significant economic growth, an improvement of the macroeconomic conditions (especially the decrease of inflation rate and interest rate), the implementation of major structural and institutional reforms. This was the background for massive foreign capital input, especially in the bank sector, for consolidated positions of foreign banks on national banking markets, which resulted in the intensification of the, the diversification of the range of bank products and services, and also in bank involvement in new market segments, like for instance the household segment.

One of the most significant characteristics of the bank lending process in the countries under survey is the fast increase of the level of bank loans granted to the economy, between 2005 and 2008, especially in Romania, the Baltic countries and Bulgaria, where the average yearly growth rate was about 51%, over 42% and respectively over 38% (see table 1). In the other countries, on the other hand, this growth rate was more moderate. Due to low domestic savings levels in most of these countries, the fast increase of the level of bank loans granted to the economy was possible by means of foreign funds with low interest rates, since international markets abounded in cash. This may be supported by the loan-to deposit ratio, which, in 2008, exceeded 100% in all the countries, except the Czech Republic (see table 1). The atypical Czech situation points out that the loan level increase phenomenon in this country was funded, in principle, from bank deposits, which enabled the banks to enjoy some sort of independence from foreign financing.

A common characteristic of all the analyzed countries is the much accelerated growth of the loans granted to households, as compared to loans granted to non-financial corporations (see table 1), reason for which they were considered to be the main engine of rapid growth of loans to the economy. In line with the data above, the fastest growths were recorded in Romania, the Baltic countries and Bulgaria, where the average yearly growth rate, between 2005 and 2008, was about 72%, over 46% and, respectively 43.24%.

Another significant feature that influenced the bank lending process in the new EU member states is the high percent of foreign currency-denominated loans (see table 1), which increased foreign exchange risk exposure and, implicitly, created major problems related to financial stability. The Baltic countries distinguished themselves in the analyzed sample, because in this country the foreign currency-denominated loans percent was over 64%, in 2008. The foreign currency-denominated loans in the other countries, in 2008, were 88% in Latvia, 86% in Estonia and 64.6% in Lithuania. In these countries, which enjoyed currency board type arrangements, the foreign currency exchange rate stability and the overwhelming share of foreign ownership in the banking sector were the main reasons that account for the high percent of foreign currency-denominated loans [2]. High percents were also recorded in Bulgaria (which also enjoys a currency board type arrangement), and countries with flexible exchange rate regimes, such as Hungary and Romania, which also saw higher national currency depreciation exposure. On the other hand, the share of foreign currency-denominated loans is moderate in Poland, and much lower in the Czech Republic, especially due to the low interest rate differential. Overall, foreign currency-denominated loans are more frequent in countries with fixed exchange rate regimes (particularly currency board arrangements) where the foreign exchange risk is perceived to be lower than in the countries with flexible exchange rate arrangements, where the foreign exchange risk is considerable.

Table 1. Selected bank lending indicators

	average yearly growth rate of loans* to			loan-to-deposit ratio (%)		Loans denominated in FX (% total loans)	
	economy	non-financial corporations	households	2005	2008	2005	2008
BG	38.57	36.70	43.24	69.8	120.3	47.8	57.2
CZ	26.73	21.50	33.58	63.7	80.9	13.0	14.1
EE	43.01	40.15	46.10	132.10	151.60	79.9	86.11
HU	16.20	10.62	24.18	112.9	137.8	38.6	61.4
LV	43.68	38.75	51.08	112.23	170.06	70.0	88.2
LT	42.98	34.30	58.75	113.38	186.92	65.8	64.6
PL	25.66	16.07	34.02	78.8	119.6	26.2	34.4
RO	50.68	37.83	71.94	80.0	123.8	47.8	57.9

*in 2005-2008

Source: (Own calculations based on data provided by ECB, 2008, 2010, IMF, Country Reports and Raiffeisen Research, 2010)

The high percent of foreign currency-denominated loans in the above mentioned countries was the result of both supply and demand increase. From the point of view of demand, this was stimulated by the interest rate differential between the interest rates for foreign currency-denominated loans and the interest rates for domestic currency-denominated loans, by the relative domestic currency stability and by significant salary increases. As concerns supply, given limited savings levels, the banks preferred to grant loans, as they had easy access to foreign financing.

In all the countries included in our research, loans granted to households were the most dynamic bank loan market segment, for which reason we find it interesting to analyze the structure on destinations of this type of loans, and especially their dynamics.

Considering the structure on destinations of loans granted to households, we noticed the percent of over 50% of housing purchase loans in all the countries, except for Romania and Bulgaria (see table 2), in 2008. Moreover, Romania had an atypical situation, since over 70% (more precisely 74.29%) of the whole loans granted to households were consumer loans, which points to the poor living conditions of the population. Nevertheless, both Romania and Bulgaria saw the fastest increase rate for housing purchase loans from 2005 to 2008, i.e. approximately 60% and, respectively 51%.

Table 2. Key household debt indicators

	structure of 575 of households debt (%)						average yearly growth rate of loans to households*		
	2005			2008					
	housing loans	consumer credit	Other loans	housing loans	consumer credit	Other loans	housing loans	consumer credit	Other loans
BG	28.41	60.63	10.96	42.88	50.13	6.99	68.55	35.21	21.99
CZ	67.54	21.43	11.04	70.51	19.39	10.10	35.63	29.81	28.32
EE	82.16	8.84	9.00	81.24	11.01	7.75	45.08	84.91	31.33
HU	59.97	31.66	8.38	50.56	44.35	5.09	17.35	44.91	-0.16
LV	71.46	14.75	13.79	78.97	12.36	8.67	56.63	41.01	31.68
LT	69.07	16.26	14.67	69.30	14.46	16.25	58.64	58.45	61.70
PL	35.76	37.64	26.60	51.09	26.89	22.02	51.94	22.07	24.43
RO	13.19	84.55	2.26	21.07	74.29	4.65	114.3	64.80	10.32

*in 2005-2008

Source: [Own calculations based on the data provided by ECB, 2008, 2010]

Another outstanding evolution of the structure on destinations of loans granted to households is supported by the faster increase of the number and value of loans for housing purchase as compared to the other two types of loans, especially in Romania, Bulgaria and Latvia. In these countries, the average yearly growth rate between 2005 and 2008 was 114%, over 68% and, respectively over 56% (see table 2). Therefore, the significant dynamics of loans for housing purchase points the fact that this type of loans was the main household loan increase engine.

The rapid growth of the loans for housing purchase was determined by both supply and demand increase. As concerns demand, its increase was stimulated by income increase, by more optimistic future income expectations, by lower interest rates, and in some countries by housing subsidy systems, by favorable tax treatment of housing loans, as for instance the Czech Republic, Estonia, Lithuania and Hungary [9]. From the supply standpoint, the increased inter-bank competition led to the diversification of credit instruments, which have become available at lower costs and longer maturities.

From the point of view of the denomination currency, it can be remarked the high percent of foreign currency-denominated loans (especially Euro) in the housing loan portfolio, which, as mentioned before, caused significantly higher foreign exchange risk exposure for households that failed to take protection measures. For the seven countries shown in the figure 1, except for Bulgaria, the share of these loans is over 60%, in 2008. In this respect, extremely high shares, namely over 90%, were registered in Latvia, Romania and Estonia (see figure 1). By contrast, in the Czech Republic, the foreign currency lending of households is almost inexistent (below 1%) and is therefore not reflected in the figure below.

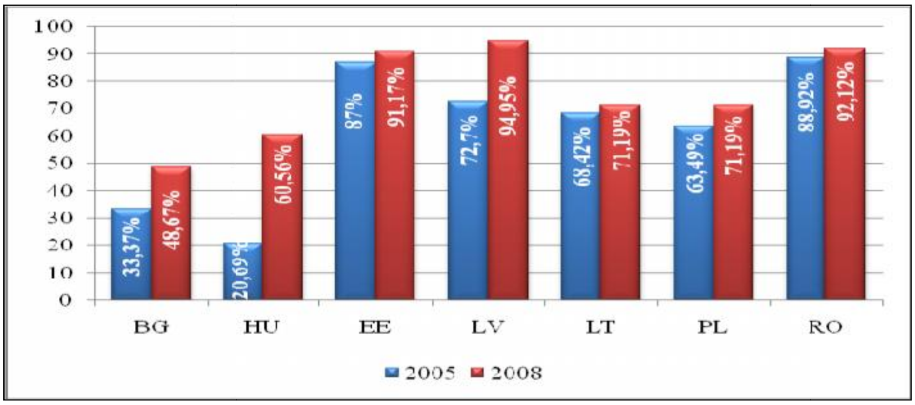

Figure 1. Share of foreign currency-denominated loans in housing loan portfolio in 2005 and 2008

Source: [ECRI, 2010]

4 Effects of the Rapid Growth of the Loans to Households and Measures Adopted by Authorities

The extremely rapid growth of the bank loans, especially of loans granted to households, caused, by its effects, important macroeconomic and financial imbalances.

According to the IMF study [17], which analyzes the credit booms on emerging markets between 1970 and 2002, there is a 70% probability that a credit boom may coincide with a consumption or investment boom.

ECB [10] points out that during the last years prior to the beginning of the current world crisis, in several Eastern and South-Eastern European economies, the fast lending level increase process was accompanied by a set of macroeconomic and financial vulnerabilities.

If we return to our sample, we notice that in many countries the pronounced increase of loans was accompanied by macroeconomic and financial imbalances.

At macroeconomic level, the extremely rapid growth of the loans granted to households in most new EU member states led to considerable domestic demand increase and implicitly to a consumption increase, which became the main production growth engine. On the other hand, given the insufficient supply, the domestic demand increase, considerably funded at the expense of loan increase, put pressure on inflation and increased current account deficits to very high and even alarming levels, especially in Bulgaria, the Baltic countries and Romania, especially in 2007 and 2008 (see table 3). Also, the deepening of the current account deficit was also due to the marked increase of mortgage loans and house prices, which resulted into a boom in the building sector, which, in its turn, increased import demand. Therefore, we refer here to the countries with the highest loan increase rates, and which were hence exposed to external financial vulnerabilities. Financially speaking, the significant increase of the mortgage loan levels, and among this the increase of the foreign currency-denominated loans and variable interest rate loans, led to a significant increase of house prices, to higher foreign exchange and interest rate risk exposure of households, to higher lending risk for banks and to their exposure to the real estate market evolution.

Table 3. Evolution of the current account balance and domestic demand, between 2006 and 2010

	Current Account Balance to GDP (%)					Domestic demand, volume*				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
BG	-17.6	-25.2	-23.2	-9.0	-1.5	10.8	8.8	6.5	-12.8	-4.6
CZ	-2.1	-2.6	-0.8	-1.2	-2.3	5.4	5.2	1.2	-3.7	1.4
EE	-15.7	-17.2	-8.8	4.5	2.8	16.5	9.6	-11.0	-23.4	1.4
HU	-7.7	-7.0	-6.9	-0.4	1.7	1.4	-1.3	0.8	-10.8	-1.1
LV	-22.5	-22.3	-13.1	8.6	3.6	18.1	12.4	-10.1	-27.6	-0.9
LT	-10.4	-15.1	-13.1	2.6	1.8	9.1	14.1	3.2	-24.6	1.8
PL	-3.0	-5.1	-4.8	-2.2	-3.1	7.3	8.7	5.6	-1.0	4.0
RO	-10.6	-13.6	-11.4	-4.2	-4.2	12.9	14.2	7.3	-12.9	-1.0

* percentage change on preceding year

Source: [European Commission, 2011]

The extremely rapid growth of the loans granted to households and especially of foreign currency-denominated loans, as well as the macroeconomic and financial vulnerabilities triggered by it, led to particular reactions of central banks and supervisory authorities in the countries under survey, mainly materialized in the adoption of monetary policy, prudential, regulation and supervision measures, and also administrative measures, designed to reduce the rapid growth of credits. But, overall, the effectiveness of these measures was limited, especially considering that in the countries under survey the full capital mobility is a reality. On the other hand, the maintenance of the high share of foreign currency-denominated loans contributed to the maintenance of banks exposure to foreign exchange risks. All this does not mean less vigilant central banks and supervisory authorities on the issue of foreign currency-denominated loans. Moreover, and given today's situation, the problems created by foreign currency-denominated loans to financial stability and money policy efficiency made the authorities from various countries to adopt new measures. For example: the Hungarian Parliament passed a regulation that banned the granting of this type of loan, in August 2010, whereas Poland intends to impose a 50% ceiling for the share of exposures open to FX risk in the entire bank's portfolio of retail credit exposures financing real estate, introducing the obligation for the bank to justify the adopted maximum level of loan-to-value ratio (LTV) etc.

5 Impact of the Current Crisis on Bank Loans Granted to Households

The current global crisis has stopped the accelerated dynamic, expressed through two digits growth rates, of the loans granted to the economy, including of the loans granted to households.

The diminishing of the loans granted to households in the analyzed countries has been determined by a rapid and significant contraction of the supply and the demand of credits. The reduction of the supply was determined by liquidity issues that existed on the international financial markets and which have affected the foreign banks that had subsidiaries opened in the analyzed countries and also by the increased risk aversion of the banks, which have raised their standards and terms in regard to credit operations.

The decrease of the demand for loans was determined especially by the increase of the credit costs, the depreciation of the national currencies from the analyzed countries and the high volatility of the exchange rates and also by lower income levels, higher unemployment rates and employment uncertainty. Under these circumstances, the year 2009 saw a drop in the real growth rate of loans granted to households in all the countries under survey, with particular differences (see the figure 2). From this point of view, we may distinguish three groups of countries. Thus, the first group includes Poland, the Czech Republic and Bulgaria, where the drop was less significant and the loan expansion ratio remained positive. Such an evolution was possible as a result of some repurchases of loans by parent banks, in the case of Bulgaria, higher independence from international financing in the case of the Czech Republic, higher domestic capital presence in the banking sector in Poland and, last but not least, due to the fact that these countries managed to maintain a relatively low positive economic growth during this period. There is also a second group, including Lithuania, Latvia, and Estonia, where the growth rate was negative, and a third group of countries, comprising Romania and Hungary, where the household loan market practically crashed by 34% and 30%, respectively, in 2007 and 2008.

The pronounced reduction of the bank lending activity has had significant implications for the housing market, leading to a dramatic decrease in housing prices and hence to lower the real estate collateral, with threats to financial stability. For example, in the case of the analyzed countries, the house prices dropped pronounced between September 2008 and the fourth quarter of 2010, especially in Latvia with more than 52%, Lithuania and Estonia by 46% [20]. Such a price change had a negative impact on the consumption by the direct wealth effects, but also by the impact of lower guarantees on the access to credit.

The economic and financial status of a significant number of households deteriorated due to economic recession, income decrease, unemployment rate increase, national currency depreciation and assets value decrease (especially real estate assets).

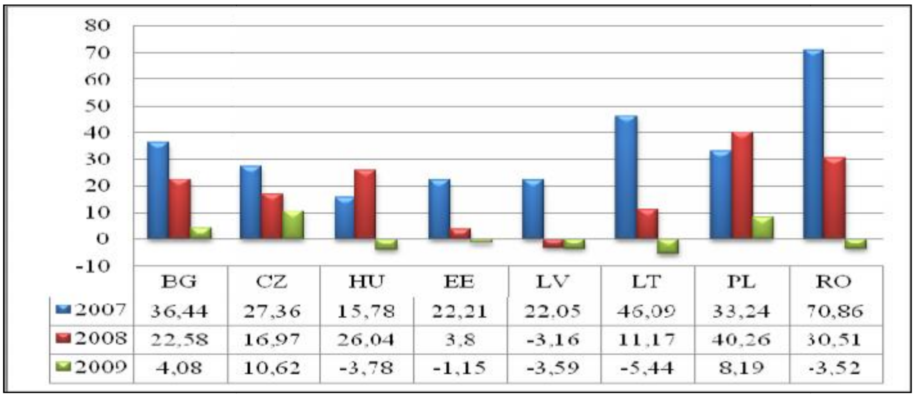

Figure 2. Real annual growth rates of total credit to households in 2007-2009

Source: [ECRI, 2010]

Moreover, some households were unable to pay their debts to banks, which led to the deterioration of the quality of the banks credits portfolio. Unavailability of the statistic data in the studied countries does not allow us to empirical highlight the share of nonperforming loans for households. But, on the whole banking sector in the surveyed countries, there was an increase in the ratio of non-performing loans (see table 4), especially in Latvia, Lithuania and Romania. In this context the banks were forced to create additional provisions which had an important impact on their profitability. Thus, the profitability indicators were substantially depreciated, especially in the Baltic States.

Table 4. Selected financial soundness indicators*, 2008-2010

	Bank non-performing loans to total loans			ROA			ROE		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
BG	2.5	6.4	11.9	2.1	1.1	0.9	23.1	10.2	7.9
CZ	3.3	5.4	6.6	1.2	1.5	1.4	21.7	25.8	23.1
EE	1.9	5.2	5.4	1.2	-2.8	0.3	13.4	-24.6	2.1
HU	3.0	6.7	9.1	0.8	0.7	0.1	11.6	9.4	1.3
LV	3.6	16.4	19.0	0.3	-3.5	-1.6	4.6	-41.6	-20.4
LT	4.6	19.3	19.7	1.0	-4.2	-0.3	13.5	-48.4	-4.7
PL	4.5	8.0	8.8	1.5	0.8	1.1	20.5	10.4	12.7
RO	2.8	7.9	11.9	1.6	0.2	-0.1	17.0	2.9	-1.0

*BG, EE,HU, LV, LT, PL, RO – December; CZ - September

Source: [IMF, 2011]

The major implications of the current global crisis on European economies and bank sectors, in general, triggered unprecedented reactions both from the European Commission, the IMF and the EBRD, and from national monetary and governmental authorities, which were materialized in the adoption of a large number of measured designed to support the bank sector and to help it resume the normal lending activities specific to a real economy. The adopted measures managed to prevent the crash of the bank sector and the revival, yet slow, of the bank lending business, especially of household loans.

The macroeconomic and financial imbalances occurring in the countries which, in the years preceding the onset of the current global crisis, enjoyed a fast, yet often non-sustainable, increase of the level of loans, especially those granted to households, and also suffered from the extremely negative effects of crisis on the bank sector, reveal the existence of a number of major shortcomings blamed on the institutional and regulating framework of the international financial system. Thus, there were intensified the financial system reform efforts. From the regulation standpoint, the passing by the Basel Committee on Banking Supervision of the Basel III Accord is very important from the point of view of the bank lending activity, as it refers to a crucial macro-prudence instrument, namely the "countercyclical capital buffer", which is designed especially to prevent excessive lending and the bank sector crash [5]. As for the institutional framework, for instance, the EU implemented, as of January 1, 2011, the European System of Financial Supervision, which has as the major goal the macro-prudential supervision of the financial EU system.

At the level of the whole banking sector, in order to prevent a future unsustainable growth of bank loans, the main challenge according to the officials of the National Bank of Romania is represented by the change of the business model of the banking sector [21].

Under the present circumstances, we may state that the central banks and supervisory authorities are currently faced with new challenges related to the credit market, especially as concerns household loans. From this point of view, one of the challenges is related to the high share of foreign currency-denominated loans, given the limited domestic savings level. Thus, the authorities should channel their efforts towards designing and implementing solutions meant to develop national currency markets, to strengthen the cooperation with the authorities in the countries of origin of foreign banks, and also to thoroughly promote awareness raising campaigns among households on the risk of foreign currency over-indebtedness. Another challenge is related to mortgage loan market, which, unlike consumer loan market, has not been regulated yet by specific European regulations.

5 Concluding Remarks

In the years preceding the current global crisis, in the analyzed countries, loans granted to households were the most dynamic segment of the bank loan market.

The extremely rapid growth, expressed through two digits growth rates, of the loans granted to households, especially of foreign currency-denominated mortgage loans, resulted into the marked increase of the household indebtedness and risk exposure levels, and we refer here especially to foreign exchange and interest rate risks.

In most of the analyzed countries, the highly dynamic evolution of loans granted to the economy, in general, and to households, in particular, brought about significant macroeconomic and financial imbalances. Macro-economically speaking, some countries had higher inflation rates, higher current account balance deficits and higher external debt levels. Financially speaking, the significant mortgage loan levels increase, and, among them, the foreign currency-denominated or variable interest rate loans, led to a significant increase of house prices, to higher foreign exchange and interest rate risk exposure of households, to higher lending risk for banks and to their exposure to the real estate market evolution.

The current crisis stopped this rapid growth of the bank loan and aggravated the financial status of many households in the EU. Economic recession, the cash availability problems encountered by international financial markets, the more restrictive lending standards and terms, the depreciation of some national currencies and the exchange rate volatility, as well as the negative economic growth and unemployment rate perspectives, slowed down the rate of loans granted to households in all the analyzed countries, yet with certain differences. Therefore, the countries that suffered the most severe macroeconomic and financial imbalances were the most affected by the crisis.

The serious imbalances suffered by some countries due to extremely fast, and often unsustainable bank loan levels increases, and also the extremely negative effects of the current crisis on those countries, underline the major role played by the household loan market in ensuring economic and financial stability. From this point of view, the central banks and supervisory authorities are facing new challenges related to risk management improvement and to the enforcement of stability-enhancing supervision regulations.

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THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
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REALITIES AND PERSPECTIVES

Increasing the Company's Profitability Through Logistics Management

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Abstract: The objective of the paper "Increasing the company's profitability through logistics management" is to present the significance of organizing an efficient logistics activity and the challenges that the companies are facing in order to obtain full advantage from using logistics as a competitive tool. The companies' dependence from the strategic decisions belonging to the supply chain stands as a reason for the ever growing interest towards Supply Chain Management and towards applying innovative processes that will offer an advantage when faced with increasingly tougher competition from domestic or foreign companies. The company's characteristics can be subject to deep changes through decisions pertaining to the supply chain; these decisions are vital to the company's productivity and competitiveness. If the logistics' role in increasing the company's profitability is acknowledged, then implementing complex technologies and investing multiple factors into improving logistical performance is fully justified. Customer orientation and focusing on key activities, which need to be performed daily in order to meet customer demand are absolutely necessary in a system which implies fast reaction to market changes. The managerial way of thinking has changed significantly in the last years, because of the highly global competitiveness, the pressure to reduce costs, focusing on the company's central competence. The principle of functioning is an aggregate system approach for the entire flow of information, materials and services beginning with supply of raw material, processes and movements inside the factories and warehouses, until the products reach the final customer.

Keywords: logistics; supply chain management; outsourcing; distribution; added value

JEL Classification: M21- Business Economics

1. Introduction

The "Logistics" term comes from the way the companies relate to each other. If we start our research with the provisioning department and we go all the way of provisioning we identify a number of suppliers but for each one of them we find one or more suppliers. The result is provisioning network or a series of chains. These networks can become easily very complex. The purpose of supply chain management is to reduce the risks that may occur in the processes, by acting in a positive manner in all that concerns inventory, time cycles, processes, but mostly in satisfying the final customer. The focus is on optimizing the system. The instruments that assist the efficiency of the chain activities are Forecasting, General Planning, Inventory, Daily/Hourly/ Planning. In order to develop forecasts a common database must be used. The forecasts become therefore entry dates for general planning. This general planning establishes restrictions and directions for the Inventory, thus through it can be determined the need of workers and the equipment planning.

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The supply chain capacity has the same importance for the company as the product strategy. The supply chain management supports the management of the processes among the all departments. Linking the objectives of the supply chain management to the general strategy of the company, it will achieve an improvement of the company's competitiveness. These improvements are generated generally from the external company's goals than from the internal objectives of the departments. The supply chain management requires a management in the traditional functional domain and a management of the company's external activity. This type of management incorporates the objectives and the capacity of the supply chain into the company's strategy. Focusing on this integration will lead to a sustainable competitive advantage over the competition. Due to the management impact on the general demand and offer it will reflect on the company's profitability.

The companies have become in time more and more specialized and started to look for suppliers that offer quality materials at lower prices instead of engaging their resources in their own logistics department. In the same time it is critical for the companies to overview the entire logistics network in order to optimize the general performance. In this sort of situations the companies have realized that when two companies are involved in the logistics process the success of one company depends on the success of the other company.

2. Distribution and Materials Management

The national and international competition has become very challenging. The customers have multiple possibilities from which they can choose in order to satisfy their needs. It is therefore crucial to position the product through the distribution channel in the same manner to have maximum of accessibility for the customer with minimum costs. The companies have tried to solve the distribution problems by building up stocks in different points of the supply chain. The dynamic nature of the market makes the building up of stocks to be very risky and to lead to a potential unprofitable business. The customer's habits regarding the buying are always changing. The competitors are continually introducing and retreating products from the market. The offer variation leads to errors in building up of stocks. The costs of keeping stock are blocking a part of funds and stop the company to offer low products.

3. Production and Marketing

The mission of the logistics management is to plan and coordinate the necessary activities to achieve the maximum customer's service level at the lowest price. From this point of view the objectives of the logistics management span the organization from the management of raw materials to the delivery of the final product. The customer satisfaction is achieved through the coordination of the information flow from the market to the suppliers and of the materials and products from the suppliers to the customers. The integration of logistics into the organization offers a different perspective for the company compared to a conventional organization. For many years the production and the marketing within the same organization ware seen as separated activities, which came very often in conflict. This conflict was born from the different directions which the mentioned departments had: on the one side the production was focused to obtain a higher efficiency through standardization and long production run, on the other side the marketing department had to launch into the market a large variety of products and to rapidly operate changes to the product. Today it is impossible for these two departments to operate independently from each other. The customer orientation concept and the understanding of the customer needs are prerequisites for survival. Radical changes have been made therefore in the production management as the introduction of the flexible manufacturing systems, the materials requirements planning and just-in-time methods. In this scheme of things logistics receive a crucial role in keeping the competitive advantage. Including the logistics problems into the organization's strategy has become mandatory for today's companies, due to the increase of competitiveness through the incorporation of the suppliers and distribution logistics processes.

Logistics management try to create a unique aggregate plan for the entire organization, that will link the stand-alone plans of marketing, distribution, production and procurement. (Christopher M. 2005)

4. Outsourcing and Purchasing

Outsourcing is the term used when a company decides to purchase from outside certain materials and other services, that were initially performed within the company. Outsourcing allows a company to focus on the activities that represent its main competences. Thus the company can create competitive advantages by cost reduction. The coordination of outsourcing activities is usually achieved by the materials manager of the company. The terms materials management and logistics are commonly used with the same purpose and meaning. These terms refer to the entire range of management functions that form a complete circuit of materials: purchasing and internal control of materials production; planning and control of internal processes; transport and shipping of finished products. The purchasing department manages also the current contracts with the suppliers.

A strategic decision that is critical for many companies is choosing between producing or buying a material or a service. A company's character can be deeply changed by this type of make-or-buy decisions and has a vital importance for the productivity and competitiveness of a company. The managerial way of thinking has changed dramatically in recent years, thanks to increasing global competition, to cost reduction pressures, the decreasing and focusing on the company's core competences.

Traditionally, the "make" option is preferred by many large organizations, resulting in an upstream development and in the creation of a large number of production units and assembly lines. Most purchases are done for raw materials, which are afterwards internally processed. Current management tends to favor flexibility, to focus on the company's strong points, to get closer to clients' needs and to emphasize especially on productivity and competitiveness. These aspects support the idea of buying from the outside.

It would be totally unusual if there were an organization that could be superior in this competition in all aspects of production or services. By buying from the outside, the company's management can better focus on its main mission. This approach has already led to a substantial decrease and has created an extended goal in the purchasing process. Seeing the entire world as one large market, it becomes thus the responsibility of the purchasing department to search world class suppliers that would fit the company's strategic needs. If it were possible to have this issue discussed generally for the company itself, the problem should be formulated as follows: what would be the objective of the organization, as in how much value should be added internally as a percentage of the finished good or service value and in what form? A strong purchasing group will show a tendency to buy, if no other factors interfere, that could influence by means of their importance in the general process.

The organization outsources in the moment it decides not to produce a certain good, but to buy it. Outsourcing is essentially the reverse decision from that to produce something. A huge wave out outsourcing and privatizations (in the public sector) has hit most organizations in the last decade. Following increasing pressure to reduce the size of companies and to focus on the activities that add value to the product and on core competences in the purpose of surviving and prospering, both private and public companies have completely outsourced a series of functions and activities that were formally done internally.

Within a company one ca outsource either an entire function, or multiple elements of a certain activity, having the rest done internally. For instance, some elements that concern information technology can be strategic, some can be critical and some can be the target of a potential outsourcing and can be managed by a third party. Identifying a function as being a potential outsourcing target and breaking that function down to its components allows the people responsible to decide which activities should continue to stay within the company and which should be outsourced.

The increase of outsourced processes in logistics is said to be caused by certain inconsistencies in transport, focusing on core competences, decreasing inventory and improvement of IT systems for logistics management. Smaller stocks suppose less room for delivery errors especially if the organization performs by just-in-time principles. Logistics companies are currently holding complex computer assisted vehicle tracking technology, which reduces a series of transport risks and allows hence the logistics companies to add a greater value to the organization than in the case this function had been done internally. Third parties that that take care of logistics ensure transport tracking by using electronic data packet exchange technologies and a satellite system in order to communicate to the client where a certain driver is located and when exactly the delivery will take place. In a just-in-time environment, when the delivery window is not greater than 30 minutes, this kind of system can be critical.

The research revealed that procurement had a relatively moderate implication into the outsourcing decisions of many organizations. However, regarding the nature of this kind of a decision, the purchasing department should be massively implicated in outsourcing. Actually, in many cases – like outsourcing of the IT systems, which has grown dramatically lately – the procurement was not implicated. This will change depending on the role that the procurement activity will have in the future of the organization.

Regarding cost control, the purchasing department is the most important area of a company because two thirds of the product costs are acquired elements. It is said that design is the most expensive part of a product, but this fact is true just when the manufacturing and the purchasing links are not functioning properly. The purchasing department is responsible to know and to control these phenomena. The purchasing department has to know the materials, the performance, the availability and the suppliers. It is necessary to know which part of the product is aesthetic and which part is functional. The department is directed to other sources, like the Institute for Supply Management (http://www.ism.ws), an organization well known internationally.

5. Added value

In his paper „Competitive advantage: Obtaining and sustaining a better performance”, Porter asserts that the competitive advantage results from the value that a company manages to add for its customers. The value can be perceived by the customer either through a smaller price than the competitor’s products or through additional services that can bring some extra advantages and can justify a higher price of the product (Porter, M. 1985). An issue might be that one problem is the fact that, through differentiation from other products on the market, the degree of complexity will also rise automatically. If this differentiation is not perceived by the customer, than it is practically not present on the market, and the added value won’t bring the expected output. Porter used an instrument called „value chain”, defining steps in the transformation processes that modify a product along a supply chain. These steps include separate and interdependent activities in the added value process. The value chain helps to understand the competitive advantage sources and how they reflect in the value received by the customer. It is an analyzing instrument and it systemizes the activities from a chain and how they interact with one another.

The decision that is taken in a certain knot, will influence the other knots. If a certain plan is being made, this has to be communicated in time to the other participants in the chain, in order to assure the number of people, materials and time for the production line. In the production process, the bought goods and services cover 60% - 70% from the value of the sold product.

6. Strategic partnership relationships

The majority of companies have realised that maximizing the performances of a certain department or of a certain function can reduce the general performance of the company. The purchasing department can negociate a better price for a certain component and obtain a favourable price variance, but that cannot support the additional costs that come up in the final product because of factory inefficiencies. Thus the companies are forced to have an overview over the entire chain in order to fairlz measure the impact of a decision taken in whatever field. By the words of Ralph Drayer, vicepresident for Procter and Gamble: Winning a place on the market will suppose another type of relationship – one that admits that at the end of the day the winners will be those who understand the interdependency of businesses between sellers and retailers and those that work together in order to exploit the opportunities to deliver to the client products with added value. Mangers of most companies follow closely also the success of the other companies from within the supply chain. They work together in order to render the entire chain more competitive. They know the market realities, are very well documented concerning the competition and are coordinating their activities together with those of their business partners. They use technology to obtain the necessary information about the evolution of market demand and to trade information between organisations. The critical point in supply chain management is the management of the connections between each knot from within the chain in order to synchronize the entire supply chain.

7. Conclusions

The organisations that wish to face a dynamic environment cannot be built spontaneously. The examples of companies that have succeeded show that the process is slow, systematic, constant and present in all levels of the organisation. Management must grant sufficient importance to all elements that form the premises of a continuously chaning organisation by anticipating the changes that will occur and not by reacting to the environment. A supply chain must have a flexible logistical mechanism that allows it to respond to transformations of the business environment.

The managers that are responsible with logistics administration must define their role in the context of supply chains. They must continuously focus on cost reduction as well as quality improvement. These objectives can be achieved by means of an efficient coordination of logistical activities throughout the chain and of an optimal configuration thereof. By integrating logistics in the company's development strategy, managers must ensure the company's competitiveness and a tighter connection with clients and suppliers. The orientation towards innovative practices in the field of logistics are a solution for creating a competitive advantage that can lead to increasing profitability. Managers can achieve their goals by analyzing the supply chain and by completing activities based on this system, thus bringing added value to the product. The company can create processes and systems that support the activities described in this paper by integrating them in the operating manner of the organisation. Hence it will be capable eventually to efficiently manage logistics.

A problem of research and specialized literature in the field of logistics and supply chain management to this date is an insufficient description of the connections between more supply chains and of their impact on logistics. Each chain is analyzed separately, and only the perspective on the different flows that occur from the supplier to the client is insufficient. Extending the analysis also towards the secondary chains that interact with tha main chain is absolutely necessary. There needs to exist a continuous coordination and synchronization of the main chain with the secondary ones in order to obtain maximized efficiency and competitiveness.

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REALITIES AND PERSPECTIVES

Transformational Leadership Type in Public and Private Organizations

Mihaela Rus[1]

Abstract: The issue concerning leadership is a very complex one, that is why taking into the account the plurity of styles already existent many times it was asked the questions: „What type of leadership is necessary?”. By asking this question, we are thinking of a person responsible with organizing or coordinating work or the ones hired to do this, to think of what people want, to solve the management problems in group. This study is intended as a comparison of the two types of leadership (transformational vs. transactional) in terms of employee performance in public and private organizations. To measure performance and chose two indicators: satisfaction and productivity. This study falls into the category of research studies the type of driving through subordinates with both theoretical and practical implications. The efficiency of this type of leadership has been demonstrated by studies especially in the political and military and very few studies have been made in industrial .Type of transformational leadership is better than transactional perceived as transformational leaders are closer to the needs of employees and continuously investigate these necessities. This paper presents a practical validity as advising managers to develop a transformational type of leadership, both public and private organizations, leads to better performance. Also open new avenues of research, among which we can mention: study the impact of organizational culture on the adoption of transformational type vs transactional type; decision-making mechanisms in the type of transformational leadership; initiate training programs to develop a transformational type of leadership.

Keywords: leadership; transformational; performance; productivity; organization

JEL Classification: L2; L21; L23; L25; M1; M12

1 Introduction

Quality management in office by managers at any hierarchical level is an important measure of business success. It is estimated that the stake or measure quality of performance of this function lies in determining common and effective action of the employees in the objectives of the organization.

Low, Kroeck and Sivasubramaniam (1996) showed in their study that there is a strong positive correlation between transformational leader behaviors and objective measures of performance. In research conducted in the military (Gal, 1987) showed that involvement is the main concept in military motivation and there is a strong transformational leadership on all levels, more obedience is attributed to the punishment that correlates with the transactional style. Individual consideration, for example, as part of the transformational style, existing leadership at all levels, causes an increase in involvement. Eden and Shani (1982) in their study highlight the link between self-esteem of employees and transformational leaders. Thus, self-esteem of employees is high and reinforced by an implicit transformational leadership leads to obtain high performance. In contrast, transactional leadership induces stress and benefit the employee does not satisfy their interests. Joesteling & Joesteling (1972) presents the role model status on self-esteem high.

In terms of effort was a strong positive correlation between the type of transformational leadership and extra effort of subordinates (Mater & Bass, 1988, Howell & Avolio, 1993). Shamir, House & Arthur

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(1993) presented a study that explains how transformational leadership causes employees have high expectations in relation to the performance just by involving them in planning for and identifying and solving problems that may occur. Thus, people with high self esteem see the personal rewards far greater recognition of their performance (Pepitone, 1969) and choose their occupations according to their characteristics (Korman, 1966).

The leaders of industry, Varga (1975) showed that the need for assimilation is positively correlated with economic performance and their technical. When the need for assimilation is lower the subordinated tasks is not correlated with satisfaction. (Steers, 1975)

Research by Bass (1985) and Avolio (1990.1992) were based on comparison with the type of transformational transactional leadership and their impact on satisfaction, performance and efficiency. Previous studies have shown that contingent reward is positively related to performance and employee satisfaction (Podsakoff, Fodor & Huber, 1984). Negative contingent reward was positively correlated (Greene, 1976), negatively correlated (Bass & Avolio, 1990) or there was no significant correlation with employee performance.

Another category of studies indicate that the four components of transformational leadership are positive predictive factors of performance (Bass & Keller, 1992; Yammarino & Bass, 1990). Above issues be considered as a theoretical framework for research to support theoretical assumptions and research.

2. Methodology

2.1. The Objective of Research

This study is intended as a comparison of the two types of leadership (transformational vs. transactional) in terms of employee performance in public and private organizations. To measure performance and chose two indicators: satisfaction and productivity.

2.2. Research Hypotheses

To demonstrate the effectiveness of transformational leadership type to the type of transactional leadership has established the following specific hypotheses:

- HS1: satisfaction and productivity are significantly higher in transformational leadership than with transactional leadership irrespective of the organization.
- HS2: Transformational leaders have a level of significantly higher scores than level 2, private organizations from the public.
- HS3: The perception of transformational leadership type is higher than the type of transactional leadership.

2.3. Subjects of Research

Lot of subjects consisted of 160 employees, 80 employees in a public organization and 80 employees in a private organization. They were tasked to evaluate the eight leaders of the N = 2 level leaders 1 and N = 6 leaders of level 2. sex, group was formed so assessed (see Table 1).

Table 1. Numeric distribution of subjects

Leaders evaluate	Man	Woman	Total
Level 1	2	0	2
Level 2	2	4	4
Total	4	4	8

In terms of training, distribution lot of subjects was as follows (Table 2.) Share on gender was as follows: the total lot of subjects 67% women and 33% men.

Table 2. Distribution lot of subjects, in terms of studies

Type of organization	Secondary education	Higher education
Public	31%	69%
private	26%	74%

2.4. Tools of Research

1. *Questionnaire LBDQ-XII (Leader Behavior Description Questionnaire)* (Stogdill, 1963). Use this tool to determine the specific type of management perception of the subjects of the samples set.
2. *Identification of TF leadership vs. TA Questionnaire*(Bass,1990) This tool will clarify issues related to management type used by each leader. Loyalty coefficient is 0.84.
3. *Index of organizational reactions* (Smith, 1983). The tool highlights the behavioral and attitudinal reactions of employees to management type used by each leader.
4. *Rating Scale productivity*. This scale shows each employee opinion survey sample introduced on labor productivity in the two organizations.

2.5. Experimental Design

In this study using a complex type of design, form: 2 (the leader) x 2 (type of leadership) x 2 (type of organization).Using this design were able to measure the effects of independent variables (the leader, the type of leadership, type of organization) on employee behavior (satisfaction, productivity) and the management dimensions (consideration, structuring initiative).

Manipulated variables in this study were:

- *independent variables (V.I.)*: level of leadership - leaders at level 1(top) and leader at level 2 (middle);type of leadership –transactional leadership (TA) and transformational leadership (TF);type of organization:-public organization and private organization;
- *dependent variables (V.D):*level of employee satisfaction; productivity of organization, indicators of perceived leadership: consideration and structuring initiative

2.6. Working Procedure

Research was conducted in July 2011 in Constanta, the two organizations, one public and one private. Subjects were given to four types of questionnaires were applied directly and personally, thus avoiding non-answers. The research had a transversal, and the data once collected, were listed and subject to statistical processing program on Statistical Program for Social Sciences (SPSS 8.0 Windows). In this regard, we adopted a work plan consisting initially of grouping and tables and graphs plotting the frequency (absolute or percentage), followed by calculating averages and standard deviations for each sample and each type of leadership, and finally their correlational analysis was performed simple (Bravais-Pearson = r) regarding leadership dimensions (consideration and structuring initiative), performance indicators (satisfaction and productivity) and the components of transformational leadership vs. transactional type. It has also been applied to analysis of variance (ANOVA).

3. Results of Research

Desire to achieve comparability of results was necessary to identify the group of leaders of the transactional and transformational leaders. Thus, after calculating the overall sample (N = 160) of the mean (m) and standard deviation (σ), the following data were obtained (Table 3.).

Table 3. Means and standard deviation

Type of leadership	mean	Std.deviation
LeadershipTF	52,5	8,2
Leadership TA	36,3	7,4

To share leaders in the two groups (TA and TF), in each of the two organizations have calculated the average (m) and standard deviation (σ) for the eight leaders evaluate subordinates. To identify the type of driving environments were chosen higher values than those obtained in the general sample (N = 160) and the standard deviation were considered lower values than those obtained on the sample. For public organization to identify a sample:

• N = 3 TF leaders (one at 1:02 of level 2);

• N = 5 leaders TA (level 1 and 2).

To get more out transformational and transactional leadership distribution in the two organizations following tables present frequency and distribution diagrams of the two types of leaders.

To check if the type of transformational leadership differs from transactional, that perception of subordinates and in terms of performance, they started to statistical processing of data by ANOVA - test "F", yielding the following results (Table 4). To reveal how the components interact transformational vs. transactional leadership type of performance indicators, namely satisfaction and productivity, performed the statistical computerized Bravais-Pearson correlation coefficients for ungrouped data.

Table 4 Processing ANOVA

	Leadership effect	Level of leadership effect	Type of organization effect	The combined effect of the 3 V.I
Consideration	$F(4,1)=9.92$ $p<0.03$	$F(4,1)=3.01$ $p<0.01$	$F(4,1)=6.07$ $p<0.01$	$F(4,1)=4.08$ $p<0.09$
Structuring initiative	$F(4,1)=13.93$ $p<0.02$	$F(4,1)=9.07$ $p<0.03$	$F(4,1)=5.48$ $p<0.01$	$F(4,1)=4.79$ $p<0.09$
Productivity	$F(4,1)=12.75$ $p<0.01$	$F(4,1)=2.1$ $p<0.02$	$F(4,1)=3.38$ $p<0.01$	$F(4,1)=3.39$ $p<0.01$
Perception (scor LBDQ)	$F(4,1)=23.59$ $p<0.00$	$F(4,1)=12.67$ $p<0.00$	$F(4,1)=5.54$ $p<0.03$	$F(4,1)=5.54$ $p<0.03$
Satisfaction	$F(4,1)=7.17$ $p<0.05$	$F(4,1)=3.7$ $p<0.05$	$F(4,1)=9.4$ $p<0.09$	$F(4,1)=12.2$ $p<0.05$

3.1. Interpretation of Results

For data analysis and interpretation of information extracted from centralization applied psychological instruments is based on the concept of performance. This performance is considered from a dual perspective, as follows:

- In terms of personal satisfaction - individual goal;
- In terms of labor productivity - the organization's goal.

The second goal is achieved as a natural continuation of the first. In terms of perception management type results concluded that the account size strongly correlated with productivity ($r = .770$, $p < 0.01$) and overall satisfaction ($r = .625$, $p < 0.01$), these results explained by the fact that in an atmosphere of comfort, well being and employee productivity and satisfaction interest subordinates is high.

Transformational leaders enjoy greater consideration than transactional leaders $F(4,1) = 9.92$, $p < 0.03$ as establish their long-term goals aimed at productivity and focus on accountability by each employee. As regards the leaders, the results indicate that a level leader enjoy less consideration for the level 2. This can be explained by the fact that leaders of level 2 are more time interacting with employees than one level leader. This stands out better if only private organization for public organization.

Size structuring initiative achieved a high correlation with overall satisfaction and productivity. Higher productivity correlation is explained by the fact that leaders clarify their objectives clearly to achieve high performance and clear expectations are communicated to employees so they knew that the work will be actively involved.

Transformational leaders have a score higher in this dimension than transactional leaders as transformational leaders stimulate employees to be creative and innovative and urge them to always put questions, and they are leaders who capture the problems and see new ways to solve problems old.

In terms of leadership level, a level leaders have a score higher than level 2, $F(4,1) = 9.07$, $p < 0.03$ (as a level leaders are more involved in decision making and private organization to solve problems more than those of level 2).The results confirmed the first hypothesis as formulated specific productivity and overall satisfaction as indicators of performance are considerably higher for transformational leadership than transactional leaders.

Productivity is higher when driving transformational $F(4,1) = 3.01$, $p < .17$ because it involves active participation of leaders to achieve performance, designed for precise and perspective. No differences noted significantly between public and private organization. As the components of transformational leadership, charisma and intellectual stimulation correlated most strongly with productivity, because these two components are involved in this dimension. A transformational leader first concerns productivity in the background hovering satisfaction and employee motivation (Bass, Avolio, 1989). Transformational Leaders Level 2 to 1 score higher than a level because they are more directly involved in working with subordinates and monitoring quality of work.

Type of transformational leadership is better than transactional perceived as transformational leaders are closer to the needs of employees and continuously investigate these necessities. No significant differences were obtained regarding the leaders.

Overall satisfaction level of employees is higher for transformational leaders than for the transaction. This category of leaders shows special attention to the needs of individual employees for learning that they make for their own development. Individual differences are described in terms of necessities and desires are recognized and accepted these differences demonstrate leader behavior (Bass, 1990). Transactional leaders focus more on contingent rewards and management process in the form of a transaction - taking into account the interests of subordinates if they take account of the company (Chirica, 1996).

Individual consideration and inspiration motivation, as components of transformational leadership, satisfaction correlates more strongly with the other two components and the components of transactional leadership but slightly stronger contingent reward correlated with satisfaction. In terms of level leaders, leaders of the level 1 and level 2 because no significant differences at every level, transformational leaders focus on personal development and motivation that develops in relation to the employee.

The results of this research has confirmed the first hypothesis formulated specific, the second hypothesis was partially confirmed. Like other research done so far has shown that transformational leadership for the type of performance measured in this study by two indices (productivity and satisfaction) is superior to that obtained for a type of transactional leadership.

Also, the results confirmed and the third assumptions made. Type of transformational leadership by its components (charisma, consideration, intellectual stimulation and inspiration motivation) is better perceived by employees as transformational leaders are more closely related they are interested in the relationships we establish with subordinates, investigating continuous needs and desires of employees and involve them in decision making, motivating them to efforts for the organization. No significant differences were obtained regarding perceived transformational leader in the two types of organization.

4. Conclusions and Validity of Study

This study falls into the category of research studies the type of driving through subordinates (Bass and Yamario, 1990, Nielsen and Campbell, 1993) with both theoretical and practical implications. The efficiency of this type of leadership has been demonstrated by studies especially in the political and military (Bass, 1989; House, 1977 Burns, 1978) and very few studies have been made in industrial (Giordo, 1998, Maher, 1997)

Transformational leadership, leadership as inducing changes to improve performance, stimulate employees intellectually by being creative, innovative and solve problems in the organization and tracking employee interests with those of the collective agreement, we conclude that the transaction is a senior management .

Transformational leaders enjoy greater consideration than transactional leaders, because they establish long-term goals, pursuing productivity and focus on accountability by each employee.

Overall satisfaction level of employees is higher for transformational leaders than for the transaction. This category of leaders shows special attention to the needs of individual employees for learning that they make for their own development. Transformational leaders focus on personal development and motivation that develops in relation to the employee.

Productivity is higher for transformational leadership in the private sector, because it involves active participation of leaders to achieve performance goals aimed at well-defined and perspective.

Type of transformational leadership is better than transactional perceived as transformational leaders are closer to the needs of employees and continuously investigate these necessities. This paper presents a practical validity as advising managers to develop a transformational type of leadership, both public and private organizations, leads to better performance. Also open new avenues of research, among which we mention:

- study the impact of organizational culture on the adoption of transformational vs. transactional type of leadership
- decision-making mechanisms in the type of transformational leadership;
- initiate training programs to develop a transformational type of leadership.

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THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
EUROPEAN INTEGRATION
REALITIES AND PERSPECTIVES

Euroregion and Local Economic Development

Roxana-Maria Toma[1]

Abstract. Concerns for regional development policies and strategies are included in the classification based on NUTS I, II, III, the European Union as a priority aiming to overcome the gaps between countries, areas, regions, urban and rural non-discriminatory basis as balanced.

Keywords: region; Euro-region; local development framework; institutional framework;

1. Introduction

Lowered in the Romanian space, regionalization of the country concerned and the Government recognizes the people and local authorities, seeking solutions that are on the one hand, to reduce the administrative costs and on the other citizen, the focus of public action be as close to the leadership in the context of real autonomy and political democracy, to participate in local community development and the region to which it belongs and to enjoy better conditions of life and civilization. This means policies and strategies of public management, legal and efficient management of resources more limited, collaboration, cooperation and collaboration, under proper coordination between regional and local economic development - social development.

2. An Institutional Policy Framework Legislative Development and Regional U.E.

Development gaps that exist between U.E countries require the need to set the following objectives of the Community regional policy:

- promote economic and social progress in a balanced and feasible by strengthening

economic and social cohesion;

- development and structural adjustment of regions with developmental delays;
- conversion of areas seriously affected by industrial decline;
- development of rural areas. This objective seeks to redistribute workforce traditional agriculture to specific occupations in rural areas (rural tourism, handicraft micro-industrial);
- development and structural adjustment of regions that have an extremely low population density (less than 8 inhabitants per km2);
- solidarity between regions prosperous and less prosperous areas in decline;
- reduce the existing regional disparities with an emphasis on fostering the balanced development and revitalization areas;
- prevent production of new imbalances.

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The importance of economic disparities issues, the complexity of regional monitoring of the implementation of regional policy and the amount of resources in use requires the establishment of basic principles on which to support the U.E. regional policy. These principles are:

- focus effort on the most serious financial problems;
- partnership or cooperation between the Commission, Member States and other authorities or bodies, including economic and social partners;
- planning-programming activities for a period of 3 or 6 years;
- co-financial contribution of the various actors involved in implementing programs and regional development projects;
- community support - supplement for structural expenditure in Member States. This means that this type of expenditure should be maintained by each state at least at the level recorded in the previous period scheduled.

Experiences of the last two decades reveal the following types of regional and local development policies:

- policies initiated at the central level;
- policies that support development of private enterprises;
- policies initiated locally or regionally.

Regional and local development policies initiated at the central level have been developed in a stable environment after the Second World War and consist of *centralized redistribution of resources.* However, these policies have not led to satisfactory results over time, given their limitations:

- sectoral allocation of resources has led to fragmentation of results;
- turbulent economic climate of the 70s (the two oil price increases) has transformed business and industry initiative to support local innovation and entrepreneurship in a future work to stop them, enforcing the market, including the labor market;
- weakest regions, characterized by traditional organizational structures and technology could not develop the centralized resource allocation policies that were appropriate regional problems.

Regional and local development policy which included the development of private enterprises has been successfully practiced in the late 70s and early 80s and *was based on the functioning of market mechanisms.* Regional and local development seen by practicing these policies allowed entrepreneurs to position themselves in the economic, social, political, regional and local level, to introduce innovation, assume risk and more easily adapt to the circumstances.

Development policies at regional or local level are applied in regional and local areas structurally weak, without resulting from the practice of the two types of policies listed above.

In this case, **the local community is highlighted role** in stimulating local and regional development initiatives and attracting their exogenous.

Thus, regional development policies allow individualization of their harmonious development by adopting development policies that apply the local advantage, the complementarity between urban and rural areas. Regional policy is a policy of **solidarity** that contributes essentially to:

- *delay development* of the regions in economic aspect to the European average of economic development;
- *conversion* of industrial areas in difficulty;
- *diversification* of agricultural areas in decline;
- *regeneration* of neighborhoods, towns depopulated.

European regional policy is a policy based on real *financial solidarity*. It allows the transfer of more than 35% of the EU budget, fueled largely by the richest Member States, to **disadvantaged regions**. This policy not only promotes developing countries with a lower level compared to EU average, but also large contributors to the Community budget countries whose companies benefit from significant investment opportunities and transfer know-how, economic and technology, especially for regions the stagnant economic activities.

Regional policy is a policy with addressability and results. This results in several actions carried out in the Community:

- regional policy has contributed to helping people looking for a job, increase living standards, both at state level and disadvantaged regions;
- because these policies have been built and upgraded highways, high-speed trains, airports, linking peripheral regions of the great centers of economic development;
- in remote areas were set up small and medium enterprises;
- environmental situation has improved in the old centers of heavy industry;
- industry, tourism and rural computerization entered the U E ;
- peripheral areas have developed services education and leisure.

3. The Legal Framework of UE Regional Policy

Community legislation in the fulfillment of regional development policy is complex and requires special attention to properly interpret it. In this paper we analyze the legislation through the following three components:

- institution treaty provisions;
- provision in the text of the Treaty establishing a Constitution for Europe;
- provision of legislation adopted at Community level.

Since 1957, when the project was completed a European Union from an economic perspective, regional policy has become an indispensable element of European integration because of differences in development between Community countries.

Preamble of the **Treaty of Rome** founding states show concern the European Economic Community to strengthen the unity of their economies and to ensure their harmonious development. Founding member of the European Economic Community have proposed the implementation of these goals by reducing disparities between different regions of Member States.

The main instruments for achieving reduction of disparities between different regions of the Member States are mainly **four Structural Funds and Cohesion Fund**.

European Regional Development Fund mission is specified by Article 160 of the Treaty of Rome "*help redress the main regional imbalances in the Community through participation in the development and structural adjustment of regions lagging behind, and in the conversion of declining regions"*[1]. The role of the Cohesion Fund is *"to contribute financially to environmental projects and trans-European networks in the field of transport infrastructure."*[2]

The 2000 Treaty of Nice amending the Treaty of Rome establishing the field of economic regions. Paragraph 14, Article 2 of the Treaty of Nice provides that *"from 1 January 2007, when the multiannual financial perspective and Inter-institutional Agreement relating thereto shall be adopted and applied by this date, the European Council decides how to use those funds multi. The decision is*

[1] Article 160 - Treaty of Rome
[2] Article 161 - Treaty of Rome

taken by a qualified majority on a proposal from the European Commission and European Parliament on the advice given"[1] Consultation Committee of the Regions and Economic and Social Committee is essential.

All lists and presentations of articles of the Treaty of Rome, consolidated version of the Single European Act (1986), Treaty of Maastricht (1992), Treaty of Amsterdam (1997) and the Treaty of Nice (2000) shows that the policy coordinating regional and structural elements are priority issues for the future of the European Union. Also, the **Treaty establishing a Constitution for Europe contains provisions that make explicit reference to regional policy**. Austria and Finland's Presidency, held in 2006, and has made certain commitments to prelaunch debate on **Constitutional Treaty**, which is in some trouble because of the negative vote of France and the Netherlands in 2005. Germany, which held the EU Council Presidency in the first half of 2007, organized intense debate and discussion on the ratification and entry into force of this important document. It believes that the European Union is certainly a future in which the Constitutional Treaty for Europe will be fundamental regulatory act. Article I-3 states that the Union *"promotes economic, social and territorial cohesion and solidarity among Member States"*[2].

Article I-5 provides for the Union to respect the equality of Member States before the Constitution, to respect and national identity, including in respect of **local and regional autonomy.**

Third paragraph of Article I-11 states the principle of subsidiarity to local, regional and central level. **Subsidiarity** is a fundamental principle of EU regional development.

It is noted that the Constitutional Treaty is without fundamental changes in regional policy and economic and social cohesion. In many ways it changes the way decision making through laws or framework laws, in other respects the Constitutional Treaty brings only some additions. Romania's contribution in the consultation process was generating considerably different views on the future of Europe.

Normative Acts Adopted at Community Level

Content, purpose and objectives of regional development policy are defined in a huge volume of legislation. After the entry into force of the **Treaty of Maastricht** (1993) Regional development policy has seen a new dimension to become a priority. It creates an institution entitled to participate in decision making on issues related to regional development policy, cohesion and structural funds implementation **- Committee of the Regions**.

"If in 1975 the Structural Funds is less than 5% of EU spending, the budget period 2007-2013 they constitute about 40%."

Regulation no. 1059/2003 (EC) of the European Parliament and of the Council of 26 May 2003 the establishment of a common classification of territorial units for statistics (NUTS). Under its three levels are created NUTS I level - between 3 and 7 million inhabitants, the second - between 800,000 and 3 million inhabitants, the third between 150 000 and 800 000 inhabitants.

Communication of 28 April 2000 the Commission by Member States on guidelines for a Community initiative concerning trans-European cooperation, which creates INTEREG III. Through its instrumentality, the Commission shall inform Member States about the program INTEREG III **cross-border cooperation** between Member States and in the process of accession, cooperation with EU regions at large distances and island regions, cooperation with countries in the Balkans. Communication states that the cooperation is carried out in three directions:

- ✓ promoting integrated regional development;
- ✓ contributing to harmonious territorial integration within the Union;

[1] Paragraph 14, art. 2 - Treaty of Nice
[2] Article I-3 - Constitutional Treaty for Europe

✓ improving regional development policy and cohesion and transnational and interregional cooperation techniques.

Commission Communication of 28 April 2000 by Member States of the Community Initiative guidelines on sustainable economic and social regeneration of cities and neighborhoods in crisis, which created the Urban III. General objectives and principles presented the initiative, eligible areas and priorities for action, mode of preparation, presentation and approval of programs and funding provisions of the initiative.

Regulation (EC) no. 1783 / 1999 of 12 June 1999 of the European Parliament and the Council on the European Regional Development Fund assigns tasks, goals and innovative measures financed by the ERDF.

Regulation no. 1257/1999 (EC) of the Council of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and repealing certain regulations fining, established the new framework for achieving tasks and objectives of the EAGGF.

Regulation no. 1260 / 1999 (EC) of 21 June 1999 the Council set out general provisions on structural funds. We call this regulation a framework document setting out the objectives as ERDF, ESF, EAGGF and FIFG.

Regulation no. 2012 / 2002 (EC) of 11 November 2002 on the establishment of the European Union Solidarity Fund. This act regulates the contribution of the European Union in the process of restoring normal life in regions where there were certain calamities and disasters.

Regulation no. 16/2003 (EC) of the Commission of 6 January 2003 establishes special rules detailed Implementation of Council Regulation (EC) no. 1164/1994 on the eligibility of expenditure in the context of measures part-financed by the Cohesion Fund. It sets the framework for determining the eligible costs of the measures financed by the Cohesion Fund.

4 The Romanian Legislation on Regional Development

Romanian legislation in the field of regional policy and cohesion began to develop in the middle of the previous decade. The negotiation process with EU on Romania's accession, legislation in this area began to comply with the acquis communautaire.

The main provisions of Romanian legislation is contained in two instruments:

- provision at Constitution;
- provisions at regulations.

a) **Provisions of the Constitution**

Romanian Constitution, the version revised by Law No. 429/2003, not explicitly aspects of regional development policy. According to art. 148 of the Constitution *"constituent treaties of the European Union and other EU regulations binding precedence over contrary provisions of national laws, in compliance with the Act of Accession".*[1]

b) **Provisions regulations**

The negotiation and conclusion of chapter 21, Romania was obliged to transpose the acquis communautaire on regional policy and coordination of structural funds and to adapt it according to law.

Law no. 315 / 2004 on regional development in Romania Romanian adapt regulatory and institutional framework and in accordance with EU requirements, which regulate the status of territorial classification NUTS, existing in the European Union.

[1] Article 148 – Romanian Constitution

Government Decision no. 497 / 2004 with the last change made by the **Decision 128 / 2006** establishes the institutional framework for implementation of Structural Instruments.

Law no. 529 / 2003 approving **O.G. no. 79/2003** regulating and control arrangements for recovering amounts from non-reimbursable financial assistance granted to Romania by the European Community.

Emergency Ordinance no. 34/2006 is to integrate traditional procurement system and electronic procurement system, thus avoiding duplication of legislation.

Normative acts mentioned above are just a multitude of regulations governing regional development policy subjecting them to changes and additions.

5. Institutional Framework for Implementing Regional Development Policy

According to institutional subsidiarity criterion are three levels of the institutional implementation of Regional Development Policy: Community level, the national and regional level.

At Community level there are two institutions which aim to achieve regional development policy. The first institution, with an ***advisory role*** in decision making on regional development policy is the *Regions Committee.* The second institution, the **executive character**, is the *Directorate General for Regional Policy (DG REGIO).*

a) **Committee of the Regions (COR**) is the most recent Community institution. She started with the entry into force of the Treaty of Maastricht. Committee of the Regions is a consultative body, the role of assistant to the Council of Ministers and the European Commission, composed of representatives of regional and local communities. He respects the principle of political balance, geographical and regional EU Member States. Membership is set at a maximum COR 350, Statement no. 20 adopted on 14 February 2000 Representatives of the Governments Conference in Brussels states that for *"a Union of 27 Member States, COR is composed of 344 members, plus all the many substitutes."*[1] Romania holds 15 seats in COR. COR members, including the alternates are appointed by Member States for a period of 4 years and their mandate is renewable. COR members are not at the same time, members of Parliament. Article 263 of the Treaty establishing the European Community states that *"Committee members are not bound by any mandatory instructions. They function in complete independence in the interests of the Community "*[2].

According to Article 264 of the Treaty establishing the European Community *"shall appoint COR of 2 in 2 years, its members, the President and Bureau of the Committee"* [3]. The President shall convene the Committee at the request of Council or the Commission. COR may meet on their own initiative and shall adopt a Regulation of activity.

Article 265 of that Treaty specifying the COR consultation by the Council or the Commission and the European Parliament and issues opinions on its own initiative.

b) **Directorate General for Regional Policy (DG REGIO)** of the European Commission is the specialized structure of the European Commission aimed at the initiation, completion and implementation of normative acts on regional development policy.

DG REGIO has the power to manage the structural and cohesion funds the European Union. However, DG REGIO is responsible for implementing the **European Solidarity Fund** for rapid intervention in case of major disasters, coordinating Group extraperiferice regions of the Union, taking the European Commission contribution to the **European Fund for Ireland** which aims to reconciliation in Northern Ireland.

DG REGIO particularly aims to create conditions favorable to the successful expansion of the European Union and cooperation in regional development policy perspective, the EU's neighboring

[1] Declaration no. 20 adopted on 14.02.2000 Representatives of the Governments Conference in Brussels
[2] Article 263 of the Treaty establishing the European Community
[3] Article 264 of the Treaty establishing the European Community

states. Because of the way of activity, DG REGIO taken a particular interest and cooperation with other European networks working structures in regional development policy.

Other institutions that have decision-making and executive roles in the implementation of regional development policy are the European Parliament, Council of Ministers of the European Union, European Investment Bank.

is the only supranational institution of the European Union, together with the Council of Ministers shall act as the legislative and budget. The European Parliament represents the citizens of Member States of the Union, its members are democratically elected through direct universal suffrage for a period of 5 years. Regional development policy in the **European Parliament Regional Development Committee works (REGI)**, which comprises 56 MEPs members, 48 alternates.

Council of Ministers of the European Union as well as the European Parliament is a co-legislative institution. Of the Council are representatives at ministerial level from each Member State.

Regional development policy is an integral part in the work processes of the Council of Competitiveness, Employment Council Employment, Social Policy, Health and Consumer Policy, Agriculture and Fisheries Council. In the working committees, regional development policy is represented by several different committees, dealing with regional policy in accordance with other areas.

European Investment Bank (EIB) is a complementary European Union with legal personality, which has the mission to contribute to balanced and sustainable development of the internal market. It provides funding for projects aimed at developing the less promoted projects of interest to several Member States. Through its work, the EIB provides loans and guarantees low interest requiring Member States for projects of all sectors, including development projects in the backward regions.

The national institutional framework for regional development policy developed in line with the objectives of economic and social development of Romania, as well as the European Union.

Law 151 / 1998 lays the foundation of regional policy by introducing the 8 regions of development, units of regional development policy implementation at the local level, which are formed according to NUTS[1] classification system. According to this classification, development regions in Romania are NUTS II regions.

Law 315 / 2004 states that nationally there are two levels of institutional structure: National Regional Development Council (NDRC), Ministry of European Integration.

a) NDRC is the institutional structure of decision-making role in the development and implementation of regional development policy objectives, is established on the principle of institutional partnership and has no legal personality.

b) Ministry of European Integration is the institution responsible for the development, management, implementation and evaluation of regional development policy and programs of economic and social cohesion.

In addition to the above institutions, there are few national institutions authorized to operate additional regional development policy such as: Ministry of Finance, Ministry of Economy and Commerce, National Institute of Statistics.

The **regional level** of the institutions responsible for implementing regional development policy is made in the 8 development regions. According to Law no. 315 / 2004 regional distinction: Regional Development Council (RDC) Regional Development Agencies (RDAs).

a) Regional Development Council (RDC) is a body constituted in the developing regions, therefore, in our country are 8 CDR's, each operating on the principle of institutional partnership and possessing legal personality. Each CDR, the region in which they operate, has the following core competencies:

[1] NUTS - Nomenclature of Territorial Units for Statistics

- review and approval of regional development programs;
- support the development of PND[1] ;
- approval of regional development projects with specialized regional bodies;
- NDRC transmission to the proposed project portfolio;
- monitoring how the use of FDR[2] ;
- coordination of regional policy and regional development objectives and regional programs funded by the European Union.

b) Regional Development Agency (RDA) is a nongovernmental organization (NGO), public utility, with legal personality, which implements regional development policy in the regions. Each ADR is working on the following principles:

- decentralization;
- explicit definition of the functions and powers;
- separation of powers.

Main tasks are:

- Develop plan and development programs;
- Develop plans for regional development and fund management;
- submission for approval of projects selected CDR regional development programs;
- technical and financial monitoring of projects financed by the European Union and their coverage;
- promote, in partnership, projects of regional and local levels;
- development of cooperation with bodies and institutions in the European Union;
- developing their budgets for income and expenses for carrying out the work.

In addition to these responsibilities, each ADR conducted a series of activities.

Presentation of the three levels of complexity highlighted the institutional framework for implementing regional development policy, the spectrum of institutions in this area is vast and encompassing several areas of activity.

6. Regionalization and Five Development Regions in Romania

The region is a representative level, located in the administrative hierarchy immediately below the central position. As a legal status, *region and regionalization* covers various political and administrative realities. *Regionalization* can be:

a) *political* (at the states: Spain, Italy etc.).

b) *built* - a result of creating a unitary state in the union of several States, in turn keeping the individuality (United Kingdom);

c) *diverse* - with regional staff and other criteria established than the territorial and political, such as

language or cultural criterion (Belgium, before its transformation into a federal state);

d) *administrative (classical)* - obtained or made towards administrative decentralization and transforming regions local authorities, local autonomous administrative point of view (France);

[1] NDP - National Development Program
[2] Regional Development Fund

e) *functional by devolution* - forming regions in the position of *"constituencies"* of the state administration (Greece);

f) *cooperative regionalization* - creating regions that institutionalized forms of cooperation between local (Romania).

The objective is balanced regional structure, close to economic development - a social whole administrative territory of the state.

In Romania applies REGIO Regional Development Operational Programme *combining local initiative with regional development.* It includes the following priority structure:

Priority Axis 1 - growth poles, with scope: integrated urban development plans.

Priority Axis 2 - improving regional transport infrastructure and local levels aimed at pol-za: county road network and urban ring roads and county road status.

Priority Axis 3 - improving social infrastructure: improving services in health, education and public safety.

Priority Axis 4 - small business development: business support regional and local initiatives to support local businesses, creating jobs and sustainable develop-ment.

Priority Axis 5 - sustainable development and promotion of tourism: cultural heritage restoration and creation and development of tourism infrastructure.

Between May 5 and May 13, 2010 meetings were held for clarification on access to funds in the ROP (Regional Operational Programme).

Development regions in Romania refers to regional subdivisions established in 1998 to coordinate regional development in Romania. It is the general association of neighboring counties.

The 8 development regions in Romania are:

1) N - E counties: Iasi, Bacau, Botosani, Neamt, Suceava, Vaslui;
2) S - E: Braila, Buzau, Constanta, Galati, Vrancea, Tulcea;
3) South - Wallachia: Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman;
4) S - V Oltenia: Dolj, Gorj, Mehedinti, Olt, Valcea;
5) Western Development Region: Arad, Caras-Severin, Hunedoara and Timis;
6) I - V: Bihor, Bistrita-Nasaud, Cluj, Salaj, Satu Mare and Maramures;
7) Center: Alba, Brasov, Covasna, Harghita, Mures and Sibiu;
8) Bucharest - Ilfov.

In Romania, the administrative authorities' capacity to implement in practice in local and regional development is reduced to the needs of local communities: the limited number of qualified personnel, insufficient funding, lack of organization, lack of experience, inadequate equipment.

National Rural Development Programme 2007 - 2013 requires appropriate strategies and responsible for their application. In many municipalities to set up local development agent position, which is responsible: the local situation diagnosis, consultation, promotion, etc. locally.

Were created by combinations *intercommunity development associations* between administrative units - territorial. Among the approximately 3,200 communes, revenues are insufficient to start local development programs. It is expected that the local development association to be able to obtain revenues necessary to achieve objectives of common interest: to protect the environment and traditional cultural values, building capacity to access European Structural Funds.

They set up local development agencies, the Foundation "Partners for Local Development", "National Foundation for Community Development", "Romanian Association for Community Development", etc.. developing programs for social development - problems of institutionalized children, combating poverty, promoting solidarity and social cohesion, work and supply NGOs in these directions.

Community development programs are conducted in counties Iasi, Cluj, Constanta, Dolj, Ialomita, Valcea, in over 200 rural communities.

National regional development policy identifies certain types of regions.

Types of regions takes place after the delimitation criteria such as *economic, administrative, geographic, social, cultural, historical, ecological, etc.*. allowing the group to:

✓ *homogeneous regions (economic criteria)* - per capita income close together so dominant industry.; Geographical basis - similar topography or climate, common natural resources, socio-political criteria - some "regional identity" common historical development.

✓ *nodal regions* - polarized when interest is minimal uniformity and cohesion is the result of interaction of internal flows, the relationships and interdependencies polarized by a center ("dominant node").

✓ *regions for planning (programming)* - the unit resulting from a specific institutional framework and implementation of administrative policies and specific programs of regional development.

For regionalization, the Senate approved a plan proposed administrative reorganization of our country.

Community Charter defines regionalization: a region is a territory formed, the geographic, net unit or assembly of similar areas where there is continuity, the population has common elements and seeks to preserve and develop it, to ensure progress and prosperity.

Council of Europe believes that regionalization is an administrative sub-unit - just under the territorial state with an elected government authority and resources to support the development by that authority.

Region concept is relatively new status. In other words, currently supports the concept of region as a political quantity and / or administrative or within countries or at European level. In Europe, federalism (as an exception) was introduced during the nineteenth century. Regions were recognized as administrative units - the territorial economic development better in Italy and Spain.

In the last decades of the century. XX, and regionalzarea regions were imposed in European countries and is the harmonious development of all countries and areas: economic, social, cultural, for peaceful coexistence, to fight bureaucracy, corruption, and especially for the upper / central management of state interests and approaches to local needs.

Today, the EU regionalization is designed and implemented as a policy development harmonious, balanced lifting backward areas, less developed countries. The region is interpreted as a **public collectability** territorial strategies that reflected the distance of Community policies.

Concern political leadership of the country's administrative reorganization Romania (about 7-8 years) show more real and more evident in recent years with the statements of the president on the need for this change - change from organizing in counties (41) in regions (16).

Arguments related to:

- dividing the counties do not support the decentralization process;
- current organization cannot ensure the development;
- can not expand local autonomy for implementation of appropriate infrastructure;
- current regional projects are hampered by small area counties;
- need for investment performance.

Administrative reorganization of this concept involves the union of 2 - 3 - 4 etc.. counties (out of 41) in large regions (8-16). The theme is addressed and U.E. U.E. will provide funds for local investment rather than current size counties with areas considered too small, but the administrative entities - greater social economic, which means that there is a con-vergence of preoccupations in this area - both within Romania and to European level.

Romania expects the regionalization of the country's progress many changes - from an economic perspective such as investment in infrastructure, restructuring activities in the modernization of agriculture and industry, in services, the fuller employment of local labor resources, increase local markets, local GDP growth, national income growth and welfare.

Also, attracting European funds would have more solid financing resources, broad support. However, it is expected to reduce development gaps between country areas and counties.

On May 17, 2011 took place in Romania, Mamaia, Constanta County, International Symposium "regions, regionalization, regionalism in Europe", organized by research centers in the field, with eight sections. On this occasion, the Council of Europe has expressed a preference for the reorganization of administrative - territorial units of Romania in the format / type voivodships (as in Poland), which would be a very good reason for the EU important to provide funds for regional development in the coming years.

7 Euroregions

Regionalization of the Community Charter defines the region as "*a territory formed from geographically, a unit or group of similar areas where there is continuity, the population has some common elements and which wants to retain its specificity and to the resulting develop in order to stimulate the cultural, social and economic."* (Andrei, 2009, pp. 51-53)

In the *European* context, regional development policy serves crystallization and perpetuation of European identity. The phrase "*regional development policy*" indicates a set of uniform measures in terms of addressing - the geographical area, without reference to their belonging to a country or group of countries.

Euroregions NUTS classification model follows (Nomenclature of Territorial Units Statistics), which I referred in the previous chapter. For the period 1 January 2008-31 December 2011, the NUTS classification created regional structures in the EU following:

- 97 Euroregions NUTS I;
- 271 Euroregions NUTS II;
- 1303 Euroregions NUTS III.

Romania became part by a greater or smaller number of counties /12 municipalities Euroregions - Table 1.

The following diagram includes Euroregions which include Romania.

Table. 1 Euroregions including Romania

Nr. crt.	EUROREGIONS	YEAR	PARTICIPATING COUNTRIES
II.	Carpathian	1993	Ukraine, Hungary, Poland, Slovakia, Romania (7 counties)
III.	Danube-Cris-Mures-Tisza	1997	Hungary, Serbia, Romania (4 counties)
IIII.	Lower Danube	1997	Moldova, Ukraine, Romania
IIV.	Upper Prut	1997	Moldova, Ukraine, Romania
VV.	Giurgiu-Ruse	2001	Bulgaria,Romania
VVI.	South Danube	2001	Bulgaria, Romania (between cooperative associations)
VVII.	Lower Danube	2001	Bulgaria, Romania
VVIII.	Danube 21	2002	Bulgaria, Serbia, Romania (the Danube riverside settlements)

IIX.	Danubius	2002	Bulgaria, Romania
XX.	Siret-Prut-Dniester	2002	Moldova, Romania
XXI.	Bihar	2004	Romania, Hungary
XXII.	Middle-Danube Iron Gates	2005	Bulgaria, Serbia, Romania

Source: www.euroregiune.ro

8. Participation of Romania in Cooperation within the Euroregions

Government Emergency Ordinance (GEO) nr.120/1998 for ratification by Romania of the European Framework Convention on cross-border co-operation of territorial communities or authorities, adopted at Madrid on 21 May 1980, is the legislative development of cooperation activities border by the authorities and local communities in our country.

Moreover, Romania is a party to the European Charter of Local Self-Government, adopted in Strasbourg on 15 October 1985, and ratified by Law 199/1997 of our country.

According to the Madrid Convention, cross-border cooperation aimed at strengthening and developing neighborly relations between territorial communities or authorities which depend on two or more Contracting Parties, as well as agreements and understandings necessary for this purpose.

Local authorities or bodies designated to serve regional, according to Romanian law, county councils and local councils.

9 Conclusions

News regionalization is confirmed by the political and economic concerns to find new solutions to problems developing in conditions of global crisis. Regional development policy objective is to help reduce economic and social disparities between the various regions of Europe. Therefore, this policy now, is called economic and social cohesion. However, the reference territorial space includes not only the Community, but the entire European continent. Through various actions and instruments of regional development policy supports cross-border cooperation between Member States and U E members, the proximal regions of neighboring European countries. These actions not just a series of activities to highlight areas that meet the convergence criteria, but also refers to actions that contribute to the balanced development of all regions.

For Romania, regional development policy is considered an important way to absorb EU funds. In the pre-accession and accession Romania made some progress in terms of regional development and cooperation. By the end of the negotiation process, Romania has managed to reform the legal framework for regional development, which is in conjunction with the new Community legislation in the field. As the aim of current regional development in Romania as soon as some areas of development to meet the convergence criteria, the post-accession period and the effective integration of legal and institutional framework supports continuous adaptation. Development regions are the ones that should ensure the UE principle of subsidiarity so that decisions be based on the opinion of European citizens.

Local economic and social development cannot be done only in a territorial national framework, but in a decentralized national, economic and social development. Defining elements of the concepts of regional development and local development are divergent, but convergent, joining in the political and macroeconomic mondo lift the standard of living and civilization of all citizens. It is possible that while the entry into force of the Constitution on the future of Europe, the development regions of Romania to acquire legal personality, which would facilitate the convergence criteria. Currently territorial disputes order, traditional, linguistic and historical are replaced by building up effective implementation of projects financed by the Structural Funds and Cohesion (Romania are allocated over 17 billion during 2007 - 2013), and use sensible of their own resources to local communities.

To take advantage of development at Community level, each region of over 266 UE must implement all available tools to facilitate exchange of experience.

Without more effective exploitation of local resources, the UE 's efforts will have only temporary results. The results obtained by applying local development policies can be assessed in two complementary ways:

First, local economic interventions on the outcome of the objectives set by local authorities and the second the consequences of these policies, independent targets.

Following documentation references made in the study, a first finding is that local development management is a theory and a policy issue that brings together diverse and convergent action on land redistribution funds and local government actions.

In the current crisis of public institutions in our country, management of local development provides the opportunity to review the relationship between private and public, between economic and social. Viewed in this perspective, studies on local development issues include urban management based on public services, by highlighting the cultural and historical heritage of that community, given the political and institutional aspects related to the central administration, local government relations.

The study of these processes allows highlighting a variety of situations and show that local development policies vary depending on numerous factors such as:

- closure of some factories that have failed because of the crisis;
- aging population;
- lack of local entrepreneurship;
- dynamic business problems (restructuring, mergers, refinancing, etc..)

The relationship between economic, social and development policies as local factors.

A positive contribution to local development can be brought as a result of public - private partnership. Worldwide, public - private partnership has enabled many cities image restoration and contributed in a positive way to their conversion. This partnership enables access to professional expertise of the private sector without a change in how public management content.

We believe that in Romania, the effect of public-private partnership will be due to the emergence of Law 178 / 2010 of the partnership, the partnership governing contracts and other issues involved.

For local development strategies and to establish development needs, an important role in public-private partnerships is occupied by local government. Thus, in some municipalities of the country was created by decision of the Local Council Local Development Agent function (interface between government and community), whose main tasks:

- local situation analysis to identify appropriate solutions to address the problems that hinder local development;
- developing and implementing local development strategies;
- providing information, advice, promotion at local level.

Romania, exercised administrative capacity at local level remains inadequate to the needs of increasingly diverse local communities, the limited quality of the reduced number of personnel acting in the administrative field.

Among the causes include: lack of experience in local development strategies and human resource management, and inadequate facilities, sporadic action, pace slowed in solving many social and economic problems of local agriculture and rural development disregard . As a result of these factors is the net difference between Romania and other UE member states on local development.

Coherent local development strategies at the level of common municipalities, cities and municipalities are the best proof and guarantee optimum use of existing resources planning, workforce retraining for local development. Their experience should be extended.

Intervention impact on attracting local and business mobility by making spatial concentration of businesses is an advantage for local development.

Agglomeration of specialized activities in an area attracts ancillary industries. Tration spatial concentration of businesses are cumulative in nature. After you install an enterprise, the probability that a second company to install increases. The question arises to what extent will continue a process of spatial knowledge that external effects are supported, at least in the first phase, the local authorities as social costs.

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REALITIES AND PERSPECTIVES

Sustainable Local Development and Building Partnerships

Viorica Toma[1]

Abstract: Interest for sustainable development is manifested more strongly in terms emphasis and deepening pressure from the gap between growing needs of a growing population amid increasingly scarce resources and difficult to access, if global development policies and liberalization of markets and prices. Enterprises attach importance increasingly higher their social accountability. Their expectations in terms of local public services and hence increase the need for local development efforts, among them a starring role policies adopted by local authorities.

Keywords: optimal development, crisis development, natural capital, local politics, partnership.

JEL Classification: Q1

1. Introduction

Local sustainable development is at the intersection of several areas of public intervention, in this sense we can consider, in addition to local economic policies, urban policies and planning policies and strategies of global, European and national protection and growth natural capital.

Local sustainable development in the current context of change of economic and administrative restructuring should be seen as a dependent entrepreneurial innovation and supported by societal and institutional mechanisms flexible, with a high degree of cooperation and local and central interaction. Should, however, that those involved in this process have competence, tools and confidence they will be able to carry out what they started. They are based in their approach, the experience of the European Union, concerning: environmental policy, regional development and local policies, local autonomy, legislative and institutional system, as well as effective means in practical terms of these states.

Necessary in this context, to participate in local sustainable development actions, all subjects economic, social, political, ecological, by forming partnerships to achieve objectives such as tapping capable of producing a balanced local development, raising standards life, creating jobs, improving the business environment, more attractive area for new investment, improve local institutional capacity to develop local economic potential, poverty reduction, implementation of local sustainable development strategy in all specific areas.

2. Relationship Company Economy-Ecology, Sustainable Development

Growing number of interdisciplinary scientific papers, developed as the Club of Rome reports or other studies report the emergence and intensification of natural crisis - human economic development. (Adăscăliţei, 2004)

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"The economy is in conflict with the earth's natural systems." Current growth trends "marks a relation of increasingly tense between economy and ecosystem of the planet, which is a growing economic trap."

Data published by the World Watch Institute in the state of the world title in the title 2004 years nominees show that the twentieth century corresponded to a phase of intense growth, but led to serious depletion of Earth's natural resources.

The results of human actions insofar as they relate to meeting the needs of people living now and in the future, which are included in natural conditions.

When a rapacious economic system destabilizes the surrounding nature, the consequences affect positive character development - producing a crisis occurs development.

Natural crisis - human development on Earth can be interpreted as a complex, deeply, the emphasis on a global scale, man-made environment of incompatibility with the requirements of the natural environment, profit in the monetary sense, with the capital - human, compatibility threatening dynamic balance between efficiency, strict economic, social justice and equal opportunities for generations to coexist and succeed in life, the natural environment - human is given to us.

So far, development has been largely subordinated to monetary profit to those who call themselves entrepreneurs. Now, the crisis that kind of economic progress reveals that the development should be reconsidered, in the sense of being centered on the people so that they, together with the communities in which they live, can control the resources for their benefit present and future.

Increasingly strong tension that exists between our spiritual nature - human and natural environment on which economic and social life demonstrates that the development so far, strongly supported by the World Bank and International Monetary Fund, the administrations of the modern economy can not currently be absolute and permanent.

People for action on a global scale, can make new alternative sustainable development need to be followed a few principles:

- a principle of ensuring equal opportunities for future generations, and expression of their property rights to existing assets. Compliance with this principle in view of new development means that the volume of renewable resources used does not exceed the reproductive capacity of the natural environment, depleting resources used does not exceed its capacity of assimilation and neutralization.
- a principle of economic inequality mitigate - the social expression of the right to ensure future generations a healthy life the things needed, safe, fulfilled and productive. In keeping with this principle, it is natural that the most important contributions to economic development - to receive more social, but within the requirements posed by living a normal life, otherwise there is danger not satisfy the vital needs of each, to be disadvantaged chances of future generations, and distribution of economic power to destabilize the balance of referral.
- a principle of biological diversity and spiritual life - cultural expression and maintenance of compliance with development potential, our participation in the evolutionary process, according to creative destruction.
- a population sovereignty, expression of the right people to decide on the use of available resources, according to aspirations to live a normal life, so that the consequences of decisions to be borne by those who took them.
- a principle of mutual responsibility of those who have the resources to administer the ecological interests of future generations and those who possess special knowledge, to share them with those who might benefit from them.

Pollution - the natural phenomenon, but mostly artificial - appears as a barrier to economic and social development and is also a warning, pointing out that natural resources cannot be exploited for a long time the cruel and irrational, that the resources natural materials and energy are not inexhaustible, that they have used rational and effective in people's interest, without waste and thoughtful.

Thus, the environment, water, air, landscape, etc.. are considered free goods, free! As a result, they are exploited abusively. The social costs are not analyzed and taken into account even for non-renewable resources (oil, copper, coal).

A group of British researchers assessed the goods offered “free” our natural environment and have published the results in impressive numbers in 2011, pointing to huge losses and costs we will face in the future.[1]

Externalities are losses / gains incurred by individuals as a result of economic activities and for which no compensation shall be charged.

Negative externalities are a public bad.

Environmental pollution comes from many sources: wastewater discharge into rivers and emissions from various plants, discharge of wastes into seas, the fields extend into the groundwater pollution, air pollution from automobile gas, noise pollution from aircraft noise and vehicles. Environmental effects pass national boundaries, globalizing: tornadoes, storms, earth warming, acid rain, ozone rarefied, restriction of biodiversity, desertification and soil erosion, etc..

Causes negative externalities can be:

a) The interaction between economic and natural system, each activity begins with the transformation of environmental elements and ends by returning the goods in-kind resources from waste, polluted air, dirty water and poisoned .. etc. This relationship is illustrated by Figure 1.:

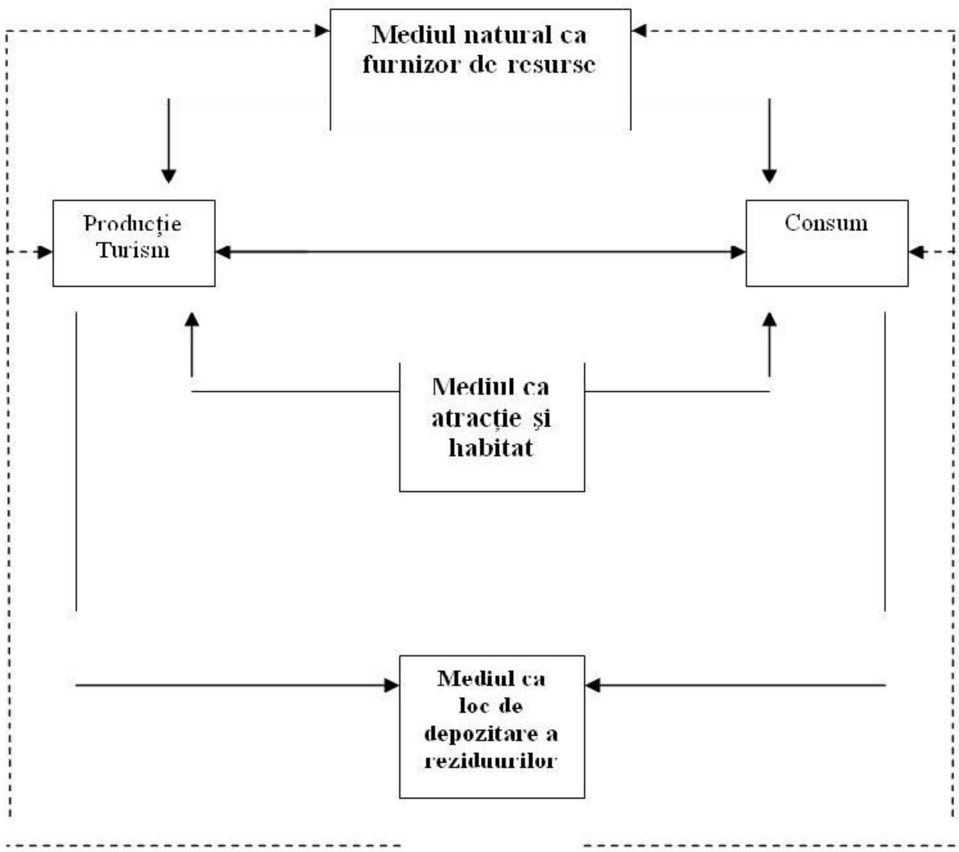

Figure 1. Relationship society - economy – environment

[1] „Jurnalul Național/National Journal”, 06.06.2011, p. 7.

b) Look at the business were less reported is the limited capacity of the environment to assimilate waste and residues.

- Lack of advanced technologies and their application (if any) on the processing and storage of waste and waste pollutants;
- Lack of services markets to manage the industry's productive output and consumption as polluting the natural environment;

A modern concept is eco - economy, created by peeling and correct way to achieve sustainable growth and development processes. First, it outlined the concept of sustainable development more sustainable.

The concept of sustainable development refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This concept was accepted and supported worldwide, being taken from the 1992 Rio Conference, an event which triggered a worldwide monitoring program of the relationships between human activities and environment.

The overall objective of sustainable development is to find an optimal interaction of the four basic systems: economic, human, environmental and technology in a dynamic and flexible operation.

New to the concept *of sustainable development is that it pays special attention to poor segments of the population worldwide.* For this purpose formulated the following minimum requirements:

1. Sustainable human development so you will need to place human beings at the center priorities. Environmental protection is vital but also economic growth should be seen as a means to support human development. Sustainability of the planet's natural resources should be provided to protect human life and human options;

2. For developing countries there can be no preference between economic growth and environmental protection. Growth is not an option but an imperative. The problem is not “how much” to economic growth, but “what kind of growth.” Growth without environmental damage can be as large as the rapid growth. Developing countries need to accelerate growth rates, but the strategies that take into account the natural physical environment, primarily through the use of technology energy intensive and less polluting industrial countries will have to continue to develop, but with a different strategic objective to move from quantitative to qualitative elements, and from welfare to quality of life;

3. Each country is obliged to formulate their own environmental priorities. These priorities are very different. Most developing countries consider air pollution as a health hazard and shows more concerned with long-term degradation of the quality of life (eg, from global warming). On the contrary, developing countries are troubled more than life itself than its quality. Immediate interests such as providing drinking water in quantities sufficient to support crops stop erosion pass before any other concern for the needs of survivors. But how expensive protective actions, and financial strength is lacking, it appears that *poverty is an enemy of the environment be as great as wealth itself.*

The term sustainable development turns to concepts like “sustainability” or “long term support” or “reliability” and so on. These notions can get very different meanings depending on who they use or location of use. Scarcity of resources has never benefited human creativity and entrepreneurial spirit, a prerequisite for the prosperity of society.

If in most advanced market economy, sustainable development is seen as an obstacle to environmental protection, but rather as a means to improve welfare standards and prolong life expectancy in developing countries - including which Romania - allocation of environmental resources depends directly on the growth rate. Crisis and economic stagnation can provide funds for technological and managerial restructuring, investment in anti-pollution equipment and plant control and protection, training and environmental education specialists.

Currently, for most Romanian, issues such as inflation and providing job-related move ahead of environmental protection. Although the concept of “sustainable development” entered the official media, not few are those who treat it with suspicion, as a whim or political alibi of the Western world. Experience has shown that as the expansion of production and distribution systems more modern and dynamic, increasing the need for management and protection of natural resources, pollution in all forms. Ignoring this reality raises the cost of pollution and social and economic viability of the price ecosystems. Expert evaluations show that the total reduction in emissions of pollutants requires the allocation of 5-6% of GDP, and rapid restoration of the environment requires the allocation of 8.10% of GDP. Analysis shows that increased environmental pressures and degradation effects have been globalized. The main causes of these undesirable developments should be sought in some kind of restrictions, other than investment or technology that occur in the environmental policies and actions. It's about the difficulties of harmonizing the various benefits on both in terms of economic rationality and social rationality.

In Romania, the acceptance of sustainable development concept faces a number of difficulties, from the semantic and pragmatic to identify content. *Are priority issues need to stop the degradation of natural capital* during the preparation conditions for preserving its economic and social development perspective.

The essence of sustainable development is given to the preservation of that heritage of present and future welfare, which includes not only human capital produced by labor and the stock of scientific and technological knowledge, but also natural capital.

Each government can act for the purposes of creating cross - the economy by establishing cross - pollution tax on the “polluter pays”, but also by measures such as taxes and subsidies policy recalibration, following the imposition of rules favorable supply environment, setting standards appropriate product labeling and programs.

Eliminating subsidies and transferring destructive, at least in part to these funds for renewable energy forms, energy efficient, clean production methods and transport will give a boost to Clean Development transition.

The introduction of environmental taxes is another measure to make market prices reflect a more appropriate way the entire cost of environmental disturbance from economic activities.

3. Consumption and Sustainable Development

“Consumption threatens human welfare and the environment when it becomes an end in itself” (Hakweil & Mastuy, 2004, p. 15) where the primary purpose of an individual or measure the success of economic policies of governments.

Private consumption expenditures reached \$ 20,000 billion in 2000 to \$ 4.800 billion in 1960, much of this increase due to the advanced prosperity in many parts of the world which have widened disparities between the level and spent between countries - see Table 1.

Table 1. Consumer spending and population by region in 2000

Region	Share of private consumption expenditure	Share of world population
	[percent]	
S.U.A. and Canada	31,5	5,2
Western Europe	28,7	6,4
East Asia and Pacific	21,4	32,9
Latin America and Carribean	6,7	8,5
Eastern Europe and Central Asia	3,3	7,9
South Asia	2,0	22,4

Australia and New Zealand	1,5	0,4
Middle Africa and North Africa	1,4	4,1
Sub-Saharan Africa	1,2	10,9

Increased demand for consumer goods leads to an increase at least proportional to consumption of factors of production: agricultural raw materials, minerals, metals, wood, plastic, etc..

Pressure on natural resources is suffocating for example, stocks of virgin forests for the production of paper and totaling 19% of total world production of wood and 42% of wood harvested for industrial use. By 2050, production of paper and cardboard may represent more than half of world demand for industrial wood. Part of total paper fiber coming from recycling recorded a modest increase from 20% in 1921 to 38% today. Paper consumption will grow in light of FAO projections, almost 30% by 2011, which worsens the impact of recycling on forest reserves.

Social roots of consumer habits, consumption is a part of the social act by which people express their personal and group identity. Social motivators are insatiable consumption engines, in contrast with decent conditions. Globalization has reduced prices and stimulate consumption. Technological innovations have increased production efficiency and capacity to extract resources, increased and diversified offer of goods and services consumption, extend and globalizing markets - food production and consumption of fast food in India increased by 40% annually!. .. Expanded markets enable increased division of labor in the production and distribution of goods, achieving economies of volume by comparative advantages, leading to reduced production costs, means of stimulating consumer demand are more sophisticated and subtle - credit cards, government grants.

Negative effects that accompany the consumption boom is amplified from year to year: the problem of waste, threatening ecosystems.

An interdisciplinary international team of experts, said the study published in 2002 in the journal “Science”, that all ecosystems are withdrawn to make room for people and their homes, farms, shops and factories.

An indicator of the impact on global ecosystems is human consumption is “ecological footprint” which measures the amount of land necessary productive economy to produce resources and absorb waste.

Calculations show that the Earth provides 1.9 biologically productive hectares per capita to provide resources and assimilate waste, but the man of today use 2.3 ha (9.7 ha for the average American, to 0.47 ha for a Mozambican).

“Fingerprint analysis shows that total consumption levels had exceeded the Earth's ecological capacity since the late 70 or early 80” - see Figure 2.

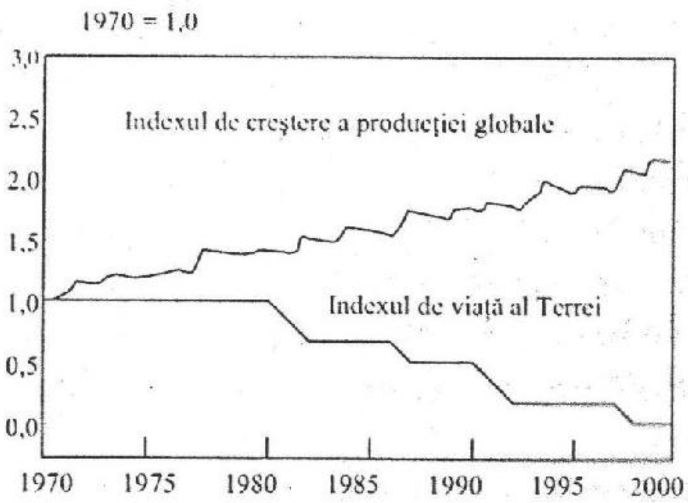

Figure 2. Changes in economic activity and ecosystem health, 1970 – 2000

Source: The World Watch Institute, state of the world, 2004, p. 23

On a similar trend, threatening to humanity, is positioned main types of resources and environmental features - see Table 2.

Table 2. Global resources and ecological trends

Fuels and air	Global consumption of coal, oil and natural gas was 4.7 times higher in 2002 than in 1950. The level of carbon dioxide in 2002 was 19% higher than in 1960, is estimated to be 31% higher than the onset of the industrial revolution in 1750. Researchers have linked global warming trend of the twentieth century with the accumulation of carbon dioxide and other greenhouse gases.
Degradation of ecosystems	More than half of Earth's water areas of wetlands in flood plains to have been lost, largely because of drainage and sanitation for human settlements and agriculture. About half of the original forests that covered the earth were also lost, while another 30% were degraded or fragmented. In 1999, overall use of fuel wood, timber, paper and other wood products was more than double that of 1950.
Level sea water	Sea level rose by 10-20 centimeters in the twentieth century, an average of 1-2 millimeters per year as a result of continental ice mass melting and ocean expansion from climate change. Small countries in the form of the island, which generates only as a percentage of emissions of greenhouse gases, is likely to be flooded by ocean waters.
Ground	Approximately 10-20% of the world's arable land suffers from some form of degradation, and 70% of mountainous areas are degraded. In the last half century, land degradation has reduced food production by about 13% of arable land and pastures 4%.
Fish	In 1999, the total quantity of fish caught was 4.8 times higher than the amount of fish caught in 1950. In just 50 years of fishing fleets have caught at least 90% of large predatory ocean fish: tuna, merlin, swordfish, shark, cod, halibut, turbot and others.
Water	High pumping groundwater leads to decline in agricultural areas - key in Asia, North Africa, Middle East and the United States. Groundwater quality is deteriorating, also as a result of infiltration of fertilizers and pesticides, petroleum substances leaking from tanks, chlorinated solvents and heavy metals from industrial and radioactive waste removed from nuclear facilities.

Premise consumption economy - unlimited consumption is desirable - appears as a fundamental threat to the natural world, which triggered a new form of global fight to change the consumption pattern in the sense of sustainable consumption.

Raw materials and labor from developing countries, yet cheap, excessive consumption are factors stimulant. Similarly, government policies of subsidizing fuel prices remain low, timber, metals and ores, encouraging increased consumption - see table 3.

Table 3. Estimated global value of harmful subsidies and environmental externalities

Sector	Grants	Quantifiable Externalities [billion dollars]	TOTAL
Agriculture	260	250	510
Fossil fuels, nuclear energy road transport	100 400	200 380	300 780
Water	50	180	230
Fishing	25	no data	25
Forestry	14	78	92
Total	849	1088	1937

A means of stopping consumption of these used by the European Union since 2004 is the application of "eco-taxes" for energy-intensive companies.

With all the warning signs of relationship drawn on "state of the world", Western Europe, North America and Japan continue to consume resources at levels incompatible with sustainable development. Pressures, as engines of sustainable development from residents and beneficiaries appear on Earth resources more actively exercising the options for a healthy life in a healthy and sustainable world. Interest in organic food growing fast. Consumption of "good" and should not be much, but rather healthy, clean health status of people. Increased demand for food has led to expansion of intensive, industrial, animal and stimulating the use of different plant and animal growth, which have been shown to increase, on the one hand, the degree of toxicity of food, on the other Party, intoxication natural environment - soil and water - lasting negative effects. In a very suggestive figure shows the efforts and results involving the consumption of meat on the environment and life.

4. Partnerships in Sustainable Local Development

Participation of all actors needs to protect human life from the fact that natural capital is the only way to ensure sustainable development of each community. Four types of structures can occur which can be summarized in the following table:

Table 4. Forms of partnerships and Features

STRUCTURE CRITERIA	1: PROJECT	2: CONTRACT 3: COOPERATION	4: PRIVATIZATION
1. Risk Sharing	- The municipality assumes the risks	- Profit-sharing agreement and risk sharing	- Reducing risks through joint participation
2. Optimizing profit	-All profits are municipal	- Sharing profits in proportion to the risk sharing	- Distribution in proportion to the risk acceptance
3.Coordinated development plan	- Integrated in the municipal area	- Agreement on profit-sharing contract	- Cooperative interdependence
4. Stages	-The municipality is not involved	- Feedback when working outside the contract	- After the decision feedback cooperation difficult
5. Marketing potential	- Entirely the responsibility of the municipality	-Extension of the acquisition	- Extension of the acquisition

In comparing the features can be recognized that structures 2 and 3 must be made within the scope of national legal national, striking a balance between independence and democratic government, on the one hand, and private sector interests on the other.

Proper functioning of the PPP is subject to the assumptions that:

- ✓ existence of a common goal;
- ✓ benefits conferred upon each party and proportional to the risks involved;
- ✓ be made arising from *public policy* goal, with certain characteristics:
  - it would be part of the development plan *strategy*;
  - *partner* have *initiator* role in *local development* and economic *guarantor* of spending public money for their achievement (as in public services);
  - to establish a structure (usually belonging to public authorities) to monitor the timeliness and quality of the public good.
- ✓ is a limited partnership.

The main condition is to benefit both sides (Table 5).

The main condition is to benefit both sides (Table 5).

Table 5. Benefits of the partners with public

Partners	Give	Receiving
The private sector	Money Benefits in kind products Access to distribution channels Access to customers promotion volunteers	Technical knowledge Brand preference Higher sales Notoriety Social effects Increasing the number of employees loyal
Non-profit sector	Technical knowledge Understanding Networks Volunteers Credibility Access to distribution channels Promotion	More resources Visibility Technical knowledge National network of public institutions and contacts Support for targets
Other public institutions	Influence Access to target markets Technical knowledge Access to distribution channels	Support for institution mission More resources visibility

Of course, companies have different resources (not many quantities) that can support public institutions. They have attracted. First there must be clear objectives initiative.

5. Conclusions

“Local sustainable development and building partnerships” addresses a highly topical issue, both theoretical and practical aspect. This explains the concern of states and governments of the world, but closer to our interests, EU and the Romanian authorities for a territorial organization and administration, economic, social and environmental as effective as not to be scattered more difficult to obtain resources for the development and growth.

By the same token, the crisis of traditional system development model - bureaucratic public management shows that it is necessary to rethink the terms of the policy, strategy and tactics on the evolution of human society globally and locally.

Sustainable development as a concept aimed at the participation of all political, economic and social environment to optimize the relationship between human, economic, technological, natural (ambient) is the general uptake and sparks debate and urgent strategies to correct man's mode of action for a positive climate for future generations.

In the framework of sustainable development must blend harmoniously balanced central government policy to local development policies.

It gives an important place to identify the causes that led to imbalances in the natural products, emphasizing the negative role of poor waste management, intensive consumption of the population, industry, widening gaps between rich and poor, increasing negative externalities.

From this analysis emerged the necessity to essential changes in the structure plan economic development - social, in which participation is broader and more specifically, to expand the resource base to extend public services market in order to enhance areas, underdeveloped regions and localities in proximity to communities in terms of level of civilization by:

- alternative policies and mechanisms macroeconomic partnerships;
- appeal to social and cultural criteria, in addition to economic development in the use of local resources;
- improving ambient environmental / natural;
- support SMEs and other types of activities paying taxes;
- development of human resources of the community;
- local solidarity, communication.

Particular emphasis was placed on rationale, role, opportunity, benefits such cooperation models can generate public interest. The paper refers to the types of partnerships and, even if new areas are underrepresented. Therefore, a special place was given to highlight the important role particularly for the establishment of partnerships in our country in terms of local development of the law 178 / 01.11.2010, whose elements of great stimulation for the establishment of partnerships are reported in this paper license.

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THE 7TH EDITION OF THE INTERNATIONAL CONFERENCE
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REALITIES AND PERSPECTIVES

Evolution and Impact FDI in Romania, in the Context of Past and the Present Macroeconomic

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Abstract: In the article we want to emphasize the evolution of FDI in Romania during 2008 – 2010. Through the achieved foreign direct investments, the companies are following to obtain the largest possible gain from the capitalization of the own “advantages”. As a result, these internalize the external markets, generating internal flows (within their organizational structures) of goods, services, knowledge, etc. So, the companies make FDI when they have “benefits” that can be used with greater profitability outside the national borders, which implies, that it was reached a certain level of economic development of the source countries. The research methodology is found in using the literature of specialty, statistical data and graphs. The decision to invest in a particular country is based on a thorough analysis of the local factors (advantages of the host country), correlated with the necessities of profitability of the economic agents and the size (intensity) of risk associated with the operation in a foreign environment. In conclusion the FDI, in the first then moths of 2010, totaled 2.145 billion euros, in decrease with 26% compared to the similar period of the last year when there was registered a level of 2.9 billion euros.

Keywords: investment; evolution; economy; profit; flow

JEL Classification: E6; H3; O1

1. Introduction

Through the foreign direct investments made, the companies aim to obtain the largest possible gain from the capitalization of the own: advantages. As a result, they internalize the external markets, generating internal flows (within their organizational structures) of goods, services, knowledge, etc. So, the companies make FDI when they have “advantages” that can be capitalized with the greater profitability outside the national borders, which implies, that it was reached a certain level of economic development of the sources countries. The foreign investments are the component of international flows which reflect the purpose of an entity (individual or legal person) resident in a country, to obtain an interest (on short or long term) in a resident company in other country. Unlike the foreign portfolio investment, the foreign direct investment assumes the transfer by the issuing agent of control and decision on the receptor’s activity.

A possible definition would be that the foreign direct investment is a category of the international investments that reflects the purpose of a resident entity in a country (direct investor) to obtain a lasting interest in a resident company in another country (direct investment). (Bal & Dumitrescu, 2006)

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Another definition would be: the direct investments are consisting in the transfer of a industrial package in which are summarized capital, technologies, methods of industrial organization, managerial expertise, marketing skills, etc. which allows the investor to exercise the right of control over the investment. (Bonciu & Dinu, 2003)

Under the conceptual aspect, the direct foreign investment involves the internalization of tangible and intangible assets in the following conditions: the involved economic agents involved to be placed in different national spaces; the investor's interest to be manifested on long-term; the investor to exercise the control on the assets in which the investment was made. Through the foreign direct investment, the companies aim to obtain the largest possible gain from the capitalization of own advantages. As a result, they internalize the external markets, generating internal flows (within their organizational structures) of goods, services, knowledge, etc. So, when the companies achieve FDI when they have "advantages" that can be capitalized with greater profitability outside the national borders, which implies, that was reached a certain level economic development of the source countries.

The decision to invest in a particular country is based on a thorough analysis of local factors (the advantages of host country), correlated with the necessities of profitability of the economic agents and the size (intensity) of the risk afferent to the operation in a foreign environment. The weight of each factor in stabilizing the decision to invest depends on the motivation of the foreign investor. In the current context, of the economy of global market, where any own advantage can erode very quickly, these motivations take a special significance. Although the size of the market and the cost of production factors are the main motivations of the multinational companies to invest in the Central and Eastern Europe, an increasingly importance granted to the economic and political (stable) environment, quality of governmental institutions, of the legal system (stable and transparent), level of access to information and degree of development of infrastructure (of transport, communication, etc.)

2. Research Methodology

The research methodology is found in the use of specialty literature, statistic dates and graphics. The decision to invest in a certain country is based on the thorough analysis of the local factors (advantages of the host countries), correlated with the necessities of profitability of the economic agents and size (intensity) of the afferent risk of operating in a foreign environment.

From a conceptual point of view, the positive implications at macroeconomic implications refer mainly to the following aspects:

- Sustain the economic growth;
- Stimulates the domestic investments;
- Supports the restructuring and privatization;
- Sustain the increase of capital investments;
- Generate positive effects on the commercial balance;
- Sustain the increase of state budget revenues.

Within the article we have presented the evolution of FDI during three years. The evolution of course due to several factors is in uptrend.

3. Results

The net inflows of ISD in 2008 registered a level of 9.496 million euro and are structured as follows:

- Net participations of the foreign direct investors at the social capital of the enterprises, foreign direct investment in Romania amounting 4.873 million Euros (51.3% of the ne flow of FDI). The net participations result from sizing the participations in value of 5.265 million of euro with net loss, amounting 392 million euro. The net loss resulted from the decrease of net profit of the enterprises foreign direct investment in 2008, amounting 6.412 million euro dividends distributed in 2008 and with the losses of the enterprises foreign direct investment from 2008 amounting 4.108 million euro. The calculations are performed in accordance with the international methodology of determining the reinvested profit by the FDI enterprises.

- The net credit received nu the enterprises foreign direct investment from the foreign direct investors including in the group, amounting 4.623 million euro, representing 48.7% of the net inflow of FDI.

3.1 FDI Balance at the End of 2008

The final balance of FDI in 2008, resulted from the addition of the initial balance of the net FDI flow, as well as of the positive/negative value resulted from the re-evaluations due to the changes of exchange rate and of the prices of some assets, both from accountable restatement of the value with initial balances, recorded the level of 48.798 million euro, higher with 14% than the final balance of FDI of 2007. The participations at the social capital (including the reinvested profit) of the enterprises, of foreign direct investment were at the end of 2008 year amounting 34.892 million euro (71.5% of the final balance of FDI), level with 10% higher than in 2007, and the net total credit received by these from the foreign direct investors, including from within the group, registered the level of 13.906 million euro, which represented 28.5% of the final balance of FDI and it was with 23% superior to the level of previous year. The net credit includes both the medium and long term loans granted by the foreign investors of their enterprises of Romania, both directly and through other non-resident companies, members of the group.

3.2 Distribution of FDI Balance on the Main Economic Activities

In terms of orientation of the foreign investors towards economic branches, FDI was located mainly in manufacturing industry (31.3% of total), within it the most attractive for FDI being metallurgy (6.9% of total), food industry, of beverages and tobacco (4.6%), mineral oil processing, chemical productions, rubber and plastics (4.3%), industry of transport meanings (4%) and cement, glass, ceramics (3.6%). Is observed a share yet reduced, compared to the potential, of some domains such as textile, clothing and leather industry (1.6%). Other activities that have attracted important foreign direct investments are the financial intermediations and insurances, which comprise the banking activity, of non-banking financial institutions and of insurances and are representing 20.5% of the total FDI, constructions and real estate transactions (12.6%), commerce (12.4%), information technology and communications (6.7%)

3.3 Incomes Achieved from Foreign Direct Investment

The net incomes achieved by the foreign direct investors in 2008 have recorded the amount of 2.938 million euro, which represents a decrease with 32.5% compared to 2007. Of these, the most important part (2.304 million euro, respective 78.4% of total net incomes) is representing the net incomes of participations at capital. The net incomes from participations at capital are the net profits obtained by the FDI enterprises, in amount of 6.412 million euro, diminished with the losses registered by the FDI enterprises in amount of 4.108 million euro. Through the decrease of net incomes of FDI from participations at capital (amounting 2.304 million euro) with the value of distributed dividends in 2008 to the foreign direct investments (amounting 392 million euro, calculated according to the international methodology of determining the reinvested profit. The net incomes from interests received by the foreign direct investors on the loans granted to their enterprises from Romania are less broad, with a level of only 634 million euro, representing 21.6% of the net incomes of the foreign direct investors.

3.4 Net flow in 2009

The net inflows of FDI in 2009 reached to a level of 3.488 million euro and are structured as follows:

- Net participations of the foreign direct investors to the social capital of the enterprises with foreign direct investment from Romania in value of 1.729 million euro (49.6% of the net flow of FDI). The net participations result from the reduction of the participation in amount of 3.118 million euro with net loss amounted to 1.389 billion euro. The net loss has resulted from the decrease of the net profit of the enterprises with foreign direct investment from 2009, amounting 4.496 million euro, with 1608 million euro dividends distributed in 2009, as well as and with the losses of the enterprises with foreign direct investment from 2009, amounting 4.277 million euro.

- The net credit received by the enterprises with foreign direct investment from the foreign direct investors including from within the group, amounting 1.759 million euro, which represents 50.4% of the net flow of FDI.

3.5 FDI Balance at the End of 2009

The final balance of 2009, resulted by the addition at the initial net flow of FDI, as well as of the value positive/negative differences which are from the reevaluations due to the changes of exchange rates and prices of some assets, as and from accountable restatements of the value, of some initial balances, recorded the level of 49.984 million euro, higher with 2.4% then the final balance of FDI of 2008. The participation at the social capital (including reinvested profit) of the enterprises with foreign direct investments were amounting at the end of 2009 35.600 million euro (71.2% of the final balance of FDI), level with 2% higher than in 2008, and the total net credit received by these from foreign direct investors, including from the group, registered the level of 14.384 million euro, which represented 28.8% of the final balance of FDI and is with 3.4% superior to the level of the previous year. The net credit includes both the medium and long term loans and those on short-term granted by the foreign investor to their enterprises from Romania, both directly and through other nonresident companies member s if the group.

3.6 Distribution of FDI by the main economic activities

In terms of orientation of foreign direct investors towards economic branches, the FDI was located mainly in the manufacturing industry (31.1% of total), within it the best represented branches being: mineral oil processing, chemical productions, rubber and plastics (6.3% of total), metallurgy (5.2%), industry means of transport (4.7%),), food industry, of beverages and tobacco (4.1%), cement, glass, ceramics (3.3%). There are domains with reduced share compared to the potential such as textiles, clothing and leather (1.4%). In addition to industry, activities that have attracted important FDI are the financial intermediations and insurances, which comprise the banking activity, of non-banking financial institutions and of insurances and are representing 19 % of the total FDI, constructions and real estate transactions (12.9%), commerce (12.3%), information technology and communications (6.5%).

Table 1. FDI in Romania on 31 December 2009 breakdown by main economic activities (million euro)

	Total	
	Value	**% din total ISD**
TOTAL, of which:	**49984**	**100,0**
Industry	20680	41,4
Extractive industry	2221	4,5
Manufacturing industry, of which:	15555	31,1
- aliments, beverages and tobacco	2058	4,1
- cement, glass, ceramic	1629	3,3
- fabrication of wood products, including furniture	962	1,9
- fabrication of computers, other electronically, optic and electric products	690	1,4
- machineries, and equipments	943	1,9
- metallurgy	2577	5,2
- means of transport	2373	4,7
- mineral oil processing, chemical products, rubber and plastics	3132	6,3
- textiles, clothing and leather	717	1,4
- other branches of manufacturing industry	474	0,9
Electrical energy, gas and water	2904	5,8
Professional, scientific, technical, administrative and support services activities	2299	4,6
Agriculture, forestry and fishery	552	1,1
Commerce	6164	12,3
Constructions and real estate transactions	6453	12,9
Hotels and restaurants	213	0,4
Information technology and communications	3235	6,5
financial intermediations and insurances	9510	19,0
Transports	684	1,4
Other activities	194	0,4

Source: INS Romanian Statistical Yearbook 2010

3.7 Incomes Achieved from Foreign Direct Investments

Net incomes obtained by the foreign direct investors in 2009 recorded the amount of 694 million euro, which are representing a decrease with 2.244 million euro in report with the previous year. The net incomes from participation at capital are amounting 219 million euro (31.6% of total net incomes) and are the net profits obtained by the FDI enterprises, in value of 4.495 million euro, diminished with the registered losses by the FDI enterprises amounting 4.277 million euro. Through the reduction of the net incomes from participations at capital (in the amount of 219 million euro) with the value of dividends distributed in 2009 to the foreign direct investors (amounting 1.608 million euro) is obtained a net loss on overall of FDI of 1.389 million euro. Net incomes from received interests by the foreign direct investors at the granted loans to their enterprises from Romania had a level of 475 million euro, these representing 68.4% of the net incomes of the foreign direct investors.

3.8 FDI in 2010

The FDI stood in the first quarter of 201 to 754 million euros. Of these the participations at capital (including the reinvested profit) amounted 650 million euro, and intra-group credits 104 million euro. The foreign direct investments are representing 50.1% of the current account. In the period January – November 2010, the FDI amounted only 2,269 billion euro, in decrease with 25.5% compared to the similar period from 2009. We consider that the decline occurred amid the reluctance of the businessmen to invest in an economy found in recession that had to raise VAT by not more than 5 percentage points. As an overall look, after the data by the end of 2010, it is known already that 2010 is the year with the lowest FDI in the last six years. And this because in the first 11 months of the last year, the FDI volume totaled 2,269 million euro, in decrease with 25.5% compared to the similar period from 2009. Moreover, during the period January – November 2010 the FDI were achieved mostly by participations at capital, which amounted 1,419 billion euro, the rest of inflows, of 850 million euro, representing intra-group credits. In other words, the mother companies have reduced the funding lines, but "invested" to cover the losses.

4. Conclusions

Basically, since the crisis started, the FDI volumes in Romania had reduced continuously in the conditions in which at the final of 2008 those were amounting 9, 5 million euro. The next year the FDI decreased at half, to 4.89 billion euro, covering in proportion of 96.9% the deficit of current account. In the first 11 months the deficit was funded only in proportion of 43.9% through direct investments of non-residents in Romania. Romania is more attractive for the investors' comparative with its neighbors that were badly affected by the crisis. An example in this regard is the constructions sector, where the average level for investments is situated with about 55% under the European average. We consider that the decline occurred amid the reluctance of the businessmen to invest in a economy found in recession that had to raise VAT by not more than 5 percentage points. To attract some new investments, can be done through the development of capital market by establishing an accelerated program, clear and transparent of privatization of the state companies, as well as and the local and international listing of the Property Fund. The stimulation of the development of the domains in which Romania could have an competitive advantage, as well as of offering incentives for investments on large scale on long term – in energy, infrastructure and agriculture. Defining an action plan to place Romania in the top 20 of the most competitive economies from Europe, in the next 10 years and promoting the strategy of liberalization of energy and natural gas market. Another thing which should be taken into account is that to be respected the promises that were initially made to the foreign direct investors to maintain a positive climate and to ensure the increase of exports. The bureaucracy reduction and fiscal relaxation would have a beneficial effect much greater now. When the investors are running from the neighboring countries because of tax increases and seek alternatives. Romania can profit by the un-attractive economic policies of its neighbors to bring more foreign capital in the country.

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The Determination of the Main Indicators of a Production Function Using the Bernoulli Equations

Catalin Angelo Ioan[1]

Abstract: Production functions are an essential tool for analysis of production processes. The indicators of marginal production, marginal rates of substitution, elasticities of production and the marginal elasticity of technical substitution characterized, from different point of view, the behavior of the production under the action of factors of labor or capital. This paper presents a new way of determining using the first-order differential equation of Bernoulli type, giving also a useful tool for the creation of new production functions.

Keywords: production function; marginal rate of substitution; elasticity

JEL Classification: D01

1Introduction

In the analysis of production processes, fundamentally important are the production functions, which are accompanied by a series of indicators that provide useful information in the economic analysis. The production functions approach can be based on practical needs ([10]) or on the conditions of their indicators ([1], [3], [9], [11], [12], [13]). Another approach can be done in terms of purely geometric properties ([4], [5]), but also through the generalization of existing functions and then putting in obviousness their common characteristics ([6], [8]).

In this paper, we will broach the problem of determining the main indicators from a different point of view. Even if they come from different economical considerations, we will construct a first-order differential equation of Bernoulli type, whose coefficients will allow the immediate determination of those indicators.

At first glance, the question arises: how to use such an approach? The problem has an immediate response, although not very visible. The differential equation, by assigning different expressions to the composing functions, can be a true generator of production functions!

Let therefore a production function $Q:(0,\infty)^2\to\mathbf{R}_+$, $(K,L)\to Q(K,L)$ homogeneous of first degree.

Let note, also $\chi=\frac{K}{L}$ - the technical endowment of labor. We have:

$$Q(K,L)=Q\left(L\frac{K}{L},L\right)=LQ\left(\frac{K}{L},1\right)=L\cdot q(\chi)$$

where $q(\chi)=Q(\chi,1)$.

The partial first-order derivations of Q, are obtained easily:

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$$\frac{\partial Q(K,L)}{\partial K}=L\frac{\partial q(\chi)}{\partial K}=L\frac{\partial q(\chi)}{\partial \chi}\frac{\partial \chi}{\partial K}=Lq'(\chi)\frac{1}{L}=q'(\chi)$$

$$\frac{\partial Q(K,L)}{\partial L}=\frac{\partial (Lq(\chi))}{\partial L}=q(\chi)+L\frac{\partial q(\chi)}{\partial \chi}\frac{\partial \chi}{\partial L}=q(\chi)-Lq'(\chi)\frac{K}{L^2}=q(\chi)-\chi q'(\chi)$$

Since the production function is strictly increasing in each variable, results:

$\frac{\partial Q(K,L)}{\partial K}>0$, $\frac{\partial Q(K,L)}{\partial L}>0$ therefore: $q'(\chi)>0$ and $q(\chi)-\chi q'(\chi)>0$. The function q is strictly increasing and $\frac{q'(\chi)}{q(\chi)}<\frac{1}{\chi}$. Noting $y(\chi)=\frac{q'(\chi)}{q(\chi)}$ follows that: $y(\chi)<\frac{1}{\chi}$.

We have now:

$$\frac{\partial Q^2(K,L)}{\partial K^2}=\frac{\partial q'(\chi)}{\partial K}=\frac{\partial q'(\chi)}{\partial \chi}\frac{\partial \chi}{\partial K}=\frac{1}{L}q''(\chi)$$

$$\frac{\partial Q^2(K,L)}{\partial K\partial L}=\frac{\partial q'(\chi)}{\partial L}=\frac{\partial q'(\chi)}{\partial \chi}\frac{\partial \chi}{\partial L}=-\frac{K}{L^2}q''(\chi)=-\frac{1}{L}\chi q''(\chi)$$

$$\frac{\partial Q^2(K,L)}{\partial L^2}=\frac{\partial\left(q(\chi)-\chi q'(\chi)\right)}{\partial L}=\frac{\partial\left(q(\chi)-\chi q'(\chi)\right)}{\partial \chi}\frac{\partial \chi}{\partial L}=\frac{K}{L^2}\chi q''(\chi)=\frac{1}{L}\chi^2 q''(\chi)$$

The second differential of Q is:

$$d^2Q=\frac{1}{L}q''(\chi)dK^2-\frac{2}{L}\chi q''(\chi)dKdL+\frac{1}{L}\chi^2 q''(\chi)dL^2=\frac{1}{L}q''(\chi)\left(dK-\chi dL\right)^2$$

Since the function Q is concave, we have $d^2Q<0$, therefore $q''(\chi)<0$ that is q is concave.

The conditions to be fulfilled for the existence of the production function are therefore:

$$q(\chi)>0,\ q'(\chi)>0,\ 0<y(\chi)<\frac{1}{\chi},\ q''(\chi)<0$$

Let us note now that: $y'(\chi)=\frac{q''(\chi)q(\chi)-q'^2(\chi)}{q^2(\chi)}=\frac{q''(\chi)}{q(\chi)}-y^2(\chi)$ therefore:

$$\begin{cases} q'(\chi)=q(\chi)y(\chi) \\ q''(\chi)=q(\chi)\left(y'(\chi)+y^2(\chi)\right) \end{cases}$$

Also: $y'(\chi)=\frac{q''(\chi)}{q(\chi)}-y^2(\chi)<0$ or else: $y(\chi)(g(\chi)+h(\chi)y(\chi))<0$ from where: $g(\chi)+h(\chi)y(\chi)<0$.

The main indicators associated with the production function are:

- **the labor productivity**:

$$w_L=\frac{Q(K,L)}{L}=q(\chi)$$

- **the productivity of capital**:

$$w_K=\frac{Q(K,L)}{K}=\frac{q(\chi)}{\chi}$$

- **the marginal production of labor**:

$$\eta_L=\frac{\partial Q(K,L)}{\partial L}=q(\chi)-\chi q'(\chi)=q(\chi)\left(1-\chi\frac{q'(\chi)}{q(\chi)}\right)=q(\chi)(1-\chi y(\chi))$$

- **the marginal production of capital**:

$$\eta_K=\frac{\partial Q(K,L)}{\partial K}=q'(\chi)=y(\chi)q(\chi);$$

- **the marginal rate of substitution between K and L**:

$$RMS(L,K)=\frac{\eta_L}{\eta_K}=\frac{q(\chi)}{q'(\chi)}-\chi=\frac{1}{y(\chi)}-\chi;$$

- **the marginal rate of substitution between L and K**:

$$RMS(K,L)=\frac{\eta_K}{\eta_L}=\frac{q'(\chi)}{q(\chi)-\chi q'(\chi)}=\frac{y(\chi)}{1-\chi y(\chi)};$$

- **the output elasticity with respect to capital**:

$$\varepsilon_K=\frac{\eta_K}{w_K}=\frac{\chi q'(\chi)}{q(\chi)}=\chi y(\chi);$$

- **the output elasticity with respect to the labor**:

$$\varepsilon_L=\frac{\eta_L}{w_L}=1-\frac{\chi q'(\chi)}{q(\chi)}=1-\chi y(\chi);$$

- **the elasticity of marginal rate of technical substitution**:

$$\sigma=\frac{\dfrac{\partial RMS(K,L)}{\partial\chi}}{\dfrac{RMS(K,L)}{\chi}}=\frac{\chi q(\chi)q''(\chi)}{q'(\chi)(q(\chi)-\chi q'(\chi))}=\frac{\chi\left(y'(\chi)+y^2(\chi)\right)}{y(\chi)(1-\chi y(\chi))}.$$

2. General Mathematical Results

Lemma 1

Let a function $y:(0,\infty)\to\mathbf{R}$, of class C^1 and the equation:

$$y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$$

where $g,h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, $\lim_{\chi\to 0} y(\chi)=\infty$. Then:

$$y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}$$

Proof. With the substitution $y(\chi)=\frac{1}{z(\chi)}$, we have: $y'(\chi)=-\frac{z'(\chi)}{z^2(\chi)}$ from where:

$$z'(\chi)=-g(\chi)z(\chi)-h(\chi)$$

Let the attached homogeneous linear equation: $z'(\chi) = -g(\chi)z(\chi)$. Because $\frac{dz}{z} = -g(\chi)d\chi$ follows: $\ln z = -\int g(\chi)d\chi + C$ therefore: $z = Ce^{-\int g(\chi)d\chi}$. Applying the method of variation constants and considering $z(\chi) = C(\chi)e^{-\int g(\chi)d\chi}$ we obtain, after replacing in the linear equation: $C'(\chi)e^{-\int g(\chi)d\chi} = -h(\chi)$ from where: $C(\chi) = -\int h(\chi)e^{\int g(\chi)d\chi}d\chi + D$ therefore:

$$z(\chi) = e^{-\int g(\chi)d\chi}\left(D - \int h(\chi)e^{\int g(\chi)d\chi}d\chi\right),\ D\in\mathbf{R}$$

Finally:

$$y(\chi)=\frac{e^{\int g(\chi)d\chi}}{D - \int h(\chi)e^{\int g(\chi)d\chi}d\chi},\ D\in\mathbf{R}$$

Writing the above relationship as: $y(\chi)=\frac{e^{\int_0^\chi g(t)dt}}{D - \int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}$, $D\in\mathbf{R}$ we have: $\lim_{\chi\to 0} y(\chi) = \frac{1}{D} = \infty$ therefore D=0. We have now the desired formula:

$$y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}$$

Q.E.D.

Lemma 2

Considering a function $q:(0,\infty)\to\mathbf{R}$, q of class C^2 and $y:(0,\infty)\to\mathbf{R}$, $y(\chi)=\frac{q'(\chi)}{q(\chi)}$ such that: $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$ then: $q(\chi) = Ge^{-\int \frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}d\chi}$, $G\in\mathbf{R}_+$.

Proof. After lemma 1, we have: $\frac{q'(\chi)}{q(\chi)}=y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}$ therefore: $(\ln q(\chi))' = -\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}$ from where: $\ln q(\chi) = -\int \frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}d\chi + G$ and, finally:

$$q(\chi) = Ge^{-\int \frac{e^{\int_0^{\chi} g(t)dt}}{\int_0^{\chi} h(s)e^{\int_0^{s} g(t)dt}ds} d\chi}, \; G \in \mathbf{R}_+$$

Q.E.D.

3. The Characterization of Economic Indicators with Bernoulli Type Differential Equations

Theorem 1

Consider a production function $Q:(0,\infty)^2 \to \mathbf{R}_+$, $(K,L) \to Q(K,L)$ homogeneous of first degree, $q(\chi)=Q(\chi,1)$ where $\chi=\frac{K}{L}$ and $y(\chi)=\frac{q'(\chi)}{q(\chi)}$.

1. σ is the elasticity of marginal rate of technical substitution if and only if: $y'(\chi) = \frac{\sigma}{\chi} y(\chi) - (\sigma+1) y^2(\chi)$;

2. If ε_K is the elasticity of production in relation to the capital then: $y'(\chi) = \frac{\varepsilon_K'(\chi)}{\varepsilon_K(\chi)} y(\chi) - \frac{1}{\varepsilon_K(\chi)} y^2(\chi)$. Conversely, if $y'(\chi) = \frac{f'(\chi)}{f(\chi)} y(\chi) - \frac{1}{f(\chi)} y^2(\chi)$ then $\varepsilon_K = f(\chi)$;

3. If ε_L is the elasticity of production in relation to the labor then: $y'(\chi) = -\frac{\varepsilon_L'(\chi)}{1-\varepsilon_L(\chi)} y(\chi) - \frac{1}{1-\varepsilon_L(\chi)} y^2(\chi)$. Conversely, if $y'(\chi) = -\frac{f'(\chi)}{1-f(\chi)} y(\chi) - \frac{1}{1-f(\chi)} y^2(\chi)$ then $\varepsilon_L = f(\chi)$;

4. If RMS(K,L)=$r(\chi)$ is the marginal rate of substitution between L and K then: $y'(\chi) = \left(\frac{r'(\chi)}{r^2(\chi)} - 1\right) y^2(\chi)$. Conversely, if $y'(\chi) = \left(\frac{f'(\chi)}{f^2(\chi)} - 1\right) y^2(\chi)$ with $\lim_{\chi \to 0} f(\chi) = \infty$ then RMS(K,L)= $f(\chi)$;

5. If RMS(L,K)=$r(\chi)$ is the marginal rate of substitution between K and L, then: $y'(\chi) = -(r'(\chi)+1) y^2(\chi)$. Conversely, if: $y'(\chi) = -(f'(\chi)+1) y^2(\chi)$ with f(0)=0 then RMS(L,K)= $f(\chi)$.

Proof.

1. From $\sigma = \frac{\chi(y'(\chi)+y^2(\chi))}{y(\chi)(1-\chi y(\chi))}$ follows: $\chi(y'(\chi)+y^2(\chi)) = \sigma y(\chi) - \sigma\chi y^2(\chi)$ from where:

$y'(\chi) = \frac{\sigma}{\chi} y(\chi) - (\sigma+1) y^2(\chi)$. Conversely, if: $y'(\chi) = \frac{\alpha}{\chi} y(\chi) - (\alpha+1) y^2(\chi)$ then:

$$\begin{cases} q'(\chi) = q(\chi)y(\chi) \\ q''(\chi) = q(\chi)y(\chi)\left(\frac{\alpha}{\chi} - \alpha y(\chi)\right) \end{cases}$$

therefore: $\sigma = \frac{\chi q(\chi) q''(\chi)}{q'(\chi)(q(\chi) - \chi q'(\chi))} = \alpha$.

2. From $\varepsilon_K=\chi y(\chi)$ follows: $y(\chi)=\dfrac{\varepsilon_K(\chi)}{\chi}$ from where:

$$y'(\chi)=\frac{\varepsilon_K'(\chi)\chi-\varepsilon_K(\chi)}{\chi^2}=\frac{\varepsilon_K'(\chi)}{\chi}-\frac{\varepsilon_K(\chi)}{\chi^2}=\frac{\varepsilon_K'(\chi)}{\varepsilon_K(\chi)}y(\chi)-\frac{1}{\varepsilon_K(\chi)}y^2(\chi).$$

Conversely, if: $y'(\chi)=\dfrac{f'(\chi)}{f(\chi)}y(\chi)-\dfrac{1}{f(\chi)}y^2(\chi)$ then, for $g(\chi)=\dfrac{f'(\chi)}{f(\chi)}$, $h(\chi)=-\dfrac{1}{f(\chi)}$ we have: $\int_0^s g(t)dt=$ $\int_0^s \dfrac{f'(t)}{f(t)}dt=\ln f(s)-\ln f(0)$ and:

$$y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}=-\frac{e^{\ln\frac{f(\chi)}{f(0)}}}{\int_0^\chi h(s)e^{\ln\frac{f(s)}{f(0)}}ds}=-\frac{\frac{f(\chi)}{f(0)}}{\int_0^\chi h(s)\frac{f(s)}{f(0)}ds}=\frac{f(\chi)}{\int_0^\chi \frac{1}{f(s)}f(s)ds}=\frac{f(\chi)}{\chi}$$

Because $\varepsilon_K=\chi y(\chi)$ follows: $\varepsilon_K=f(\chi)$.

3. How $\varepsilon_L+\varepsilon_K=1$ follows: $\varepsilon_K'(\chi)=-\varepsilon_L'(\chi)$ therefore, from 2:

$y'(\chi)=-\dfrac{\varepsilon_L'(\chi)}{1-\varepsilon_L(\chi)}y(\chi)-\dfrac{1}{1-\varepsilon_L(\chi)}y^2(\chi)$. Conversely, If: $y'(\chi)=-\dfrac{f'(\chi)}{1-f(\chi)}y(\chi)-\dfrac{1}{1-f(\chi)}y^2(\chi)$ then, how $g(\chi)=-\dfrac{f'(\chi)}{1-f(\chi)}$, $h(\chi)=-\dfrac{1}{1-f(\chi)}$ we have:

$$\int_0^s g(t)dt=-\int_0^s\frac{f'(t)}{1-f(t)}dt=\int_0^s\frac{(1-f(t))'}{1-f(t)}dt=\ln\frac{1-f(s)}{1-f(0)}\ \text{and:}$$

$$y(\chi)=-\frac{e^{\ln\frac{1-f(\chi)}{1-f(0)}}}{\int_0^\chi h(s)e^{\ln\frac{1-f(s)}{1-f(0)}}ds}=-\frac{\frac{1-f(\chi)}{1-f(0)}}{\int_0^\chi h(s)\frac{1-f(s)}{1-f(0)}ds}=\frac{1-f(\chi)}{\int_0^\chi\frac{1}{1-f(s)}(1-f(s))ds}=\frac{1-f(\chi)}{\chi}.$$

We have but: $\varepsilon_L=1-\chi y(\chi)=f(\chi)$.

4. From $r=RMS(K,L)=\dfrac{y(\chi)}{1-\chi y(\chi)}$ follows: $y(\chi)=\dfrac{r(\chi)}{\chi r(\chi)+1}$. We have:

$$y'(\chi)=\frac{r'(\chi)(\chi r(\chi)+1)-r(\chi)(r(\chi)+\chi r'(\chi))}{(\chi r(\chi)+1)^2}=\frac{r'(\chi)-r^2(\chi)}{(\chi r(\chi)+1)^2}=\left(\frac{r'(\chi)}{r^2(\chi)}-1\right)y^2(\chi)$$

Conversely, if: $y'(\chi)=\left(\dfrac{f'(\chi)}{f^2(\chi)}-1\right)y^2(\chi)$, because $g(\chi)=0$, $h(\chi)=\dfrac{f'(\chi)}{f^2(\chi)}-1$ we have: $\int_0^s g(t)dt=0$, and:

$$y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}=-\frac{1}{\int_0^\chi h(s)ds}=-\frac{1}{\int_0^\chi\left(\frac{f'(s)}{f^2(s)}-1\right)ds}=\frac{1}{\frac{1}{f(\chi)}+\chi}.$$

But RMS(K,L)= $\frac{y(\chi)}{1-\chi y(\chi)}=\frac{\frac{1}{\frac{1}{f(\chi)}+\chi}}{1-\chi\frac{1}{\frac{1}{f(\chi)}+\chi}}$ =f(χ).

5. From r=RMS(L,K)= $\frac{1}{y(\chi)}-\chi$ follows: $y(\chi)=\frac{1}{r(\chi)+\chi}$. We have: $y'(\chi)=-\frac{r'(\chi)+1}{(r(\chi)+\chi)^2}=$ $-\frac{r'(\chi)}{(r(\chi)+\chi)^2}-\frac{1}{(r(\chi)+\chi)^2}=-(r'(\chi)+1)y^2(\chi)$.

Conversely, if: $y'(\chi)=-(f'(\chi)+1)y^2(\chi)$, we have: g(χ)=0, h(χ)= $-(f'(\chi)+1)$ from where:

$\int_0^s g(t)dt=0$ and: $y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}=-\frac{1}{\int_0^\chi h(s)ds}=\frac{1}{\int_0^\chi (f'(s)+1)ds}=\frac{1}{f(\chi)+\chi}$. But RMS(L,K)= $\frac{1}{y(\chi)}-\chi$ =f(χ).

Q.E.D.

Theorem 2

Consider a production function Q:$(0,\infty)^2\to\mathbf{R}_+$, (K,L)→Q(K,L) homogeneous of first degree, q(χ)=Q(χ,1) where $\chi=\frac{K}{L}$ and $y(\chi)=\frac{q'(\chi)}{q(\chi)}$.

1. If σ is the elasticity of marginal rate of technical substitution then ∃ g,h:(0,∞)→**R**, continous on (0,∞), χg(χ)=σ, h(χ)=-σ-1 such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$. Conversely, if ∃ g,h:(0,∞)→**R**, continous on (0,∞), h(χ)=-χg(χ)-1 such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$ then: σ=χg(χ).

2. If ε_K is the elasticity of production in relation to the capital then ∃ g,h:(0,∞)→**R**, continous on (0,∞), g(χ)= $\frac{\varepsilon_K'(\chi)}{\varepsilon_K(\chi)}$, h(χ)= $-\frac{1}{\varepsilon_K(\chi)}$ such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$. Conversely, if ∃ g,h:(0,∞)→**R**, continous on (0,∞), $g(\chi)=-(\ln|h(\chi)|)'$ such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$ then: $\varepsilon_K=-\frac{1}{h(\chi)}$.

3. If ε_L is the elasticity of production in relation to the labor then ∃ g,h:(0,∞)→**R**, continous on (0,∞), g(χ)= $-\frac{\varepsilon_L'(\chi)}{1-\varepsilon_L(\chi)}$, h(χ)= $-\frac{1}{1-\varepsilon_L(\chi)}$ such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$. Conversely, if ∃ g,h:(0,∞)→**R**, continous on (0,∞), $g(\chi)=-(\ln|h(\chi)|)'$ such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$ then: $\varepsilon_L=1+\frac{1}{h(\chi)}$.

4. If RMS(K,L)=$r(\chi)$ is the marginal rate of substitution between L and K then $\exists$ $h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, $h(\chi)=\frac{r'(\chi)}{r^2(\chi)}-1$ such that $y'(\chi)=h(\chi)y^2(\chi)$. Conversely, if $\exists$ $h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, such that $y'(\chi)=h(\chi)y^2(\chi)$ then: RMS(K,L)=$-\frac{1}{\chi+\int_0^\chi h(s)ds}$.

5. If RMS(L,K)=$r(\chi)$ is the marginal rate of substitution between K and L, then $\exists$ $h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, $h(\chi)=-(r'(\chi)+1)$ such that $y'(\chi)=h(\chi)y^2(\chi)$. Conversely, if $\exists$ $h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, such that $y'(\chi)=h(\chi)y^2(\chi)$ then: RMS(L,K)=$-\int_0^\chi h(s)ds-\chi$.

Proof.

1. From the theorem 1, considering $g(\chi)=\frac{\sigma}{\chi}$ and $h(\chi)=-\sigma-1$ the first part of the assertion is proved.

Suppose now that there are $g,h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, $h(\chi)=-\chi g(\chi)-1$ such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$. We have:

$$\sigma=\frac{\chi\left(y'(\chi)+y^2(\chi)\right)}{y(\chi)(1-\chi y(\chi))}=\frac{\chi\left(g(\chi)y(\chi)+h(\chi)y^2(\chi)+y^2(\chi)\right)}{y(\chi)(1-\chi y(\chi))}=\frac{\chi\left(g(\chi)y(\chi)-\chi g(\chi)y^2(\chi)\right)}{y(\chi)(1-\chi y(\chi))}=$$
$$\frac{\chi g(\chi)y(\chi)(1-\chi y(\chi))}{y(\chi)(1-\chi y(\chi))}=\chi g(\chi).$$

2. From theorem 1, considering $g(\chi)=\frac{\varepsilon_K'(\chi)}{\varepsilon_K(\chi)}$, $h(\chi)=-\frac{1}{\varepsilon_K(\chi)}$ follows the first implication. Suppose now that there are $g,h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, $g(\chi)=-(\ln h(\chi))'$ such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$. We have: : $\int_0^s g(t)dt=-\int_0^s(\ln|h(t)|)'dt=\ln\left|\frac{h(0)}{h(s)}\right|$ from where:

$$y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}=-\frac{\left|\frac{h(0)}{h(\chi)}\right|}{\int_0^\chi h(s)\left|\frac{h(0)}{h(s)}\right|ds}=-\frac{1}{\chi h(\chi)}.$$ Therefore: $\varepsilon_K=\chi y(\chi)=-\frac{1}{h(\chi)}$.

3. From theorem 1, considering $g(\chi)=-\frac{\varepsilon_L'(\chi)}{1-\varepsilon_L(\chi)}$, $h(\chi)=-\frac{1}{1-\varepsilon_L(\chi)}$ follows the first implication. Suppose now that there are $g,h:(0,\infty)\to\mathbf{R}$, continous on $(0,\infty)$, $g(\chi)=-(\ln h(\chi))'$ such that $y'(\chi)=g(\chi)y(\chi)+h(\chi)y^2(\chi)$. We have: : $\int_0^s g(t)dt=-\int_0^s(\ln|h(t)|)'dt=\ln\left|\frac{h(0)}{h(s)}\right|$ from where:

$$y(\chi)=-\frac{e^{\int_0^\chi g(t)dt}}{\int_0^\chi h(s)e^{\int_0^s g(t)dt}ds}=-\frac{\left|\frac{h(0)}{h(\chi)}\right|}{\int_0^\chi h(s)\left|\frac{h(0)}{h(s)}\right|ds}=-\frac{1}{\chi h(\chi)}.$$ Therefore: $\varepsilon_L=1-\chi y(\chi);=1+\frac{1}{h(\chi)}$.

4. From theorem 1, considering h(χ)=$\frac{r'(\chi)}{r^2(\chi)}-1$ follows the first assertion. Suppose now that there is h:(0,∞)→**R**, continous on (0,∞) such that $y'(\chi)=h(\chi)y^2(\chi)$. We have: $\frac{dy}{y^2}=h(\chi)d\chi$ from where $\frac{1}{y}=-\int_0^\chi h(s)ds$ therefore: y(χ)=$-\frac{1}{\int_0^\chi h(s)ds}$. We have but: RMS(K,L)=$\frac{y(\chi)}{1-\chi y(\chi)}=\frac{-\frac{1}{\int_0^\chi h(s)ds}}{1+\frac{\chi}{\int_0^\chi h(s)ds}}=-\frac{1}{\chi+\int_0^\chi h(s)ds}$.

5. From theorem 1, considering h(χ)=$-(r'(\chi)+1)$ follows the first assertion. uppose now that there is h:(0,∞)→**R**, continous on (0,∞) such that $y'(\chi)=h(\chi)y^2(\chi)$. We obtain finally: y(χ)=$-\frac{1}{\int_0^\chi h(s)ds}$. We have but: RMS(L,K)= $\frac{1}{y(\chi)}-\chi=-\int_0^\chi h(s)ds-\chi$.

Q.E.D.

4. Application

Considering the Cobb-Douglas function: Q(K,L)=A$K^\alpha L^{1-\alpha}$, α∈(0,1) we have: q(χ)=Q(χ,1)=Aχ^α, q'(χ)=Aα$\chi^{\alpha-1}$ from where: y(χ)=$\frac{q'(\chi)}{q(\chi)}=\frac{\alpha}{\chi}$, y'(χ)=$-\frac{\alpha}{\chi^2}=-\frac{1}{\chi}$y(χ). From theorem 2, the functions g(χ)=$-\frac{1}{\chi}$ and h(χ)=0 satisfying the hypotesis of the first assertion, therefore: σ=χg(χ)=-1. Also, we can write: y'(χ)=$-\frac{1}{\alpha}y^2(\chi)$. From theorem 2.2) follows that g(χ)=0 and h(χ)=$-\frac{1}{\alpha}$ satisfying the condition: $g(\chi)=-\left|(\ln h(\chi))\right|'$ therefore: $\varepsilon_K=-\frac{1}{h(\chi)}$=α. Analogously, ε_L=1-α. From theorem 2.4) we have for h(χ)=$-\frac{1}{\alpha}$: RMS(K,L)=$-\frac{1}{\chi+\int_0^\chi h(s)ds}=-\frac{1}{\chi-\int_0^\chi \frac{1}{\alpha}ds}=-\frac{1}{\chi-\frac{\chi}{\alpha}}=\frac{\alpha}{(1-\alpha)\chi}$. Analogously: RMS(L,K)=$-\int_0^\chi h(s)ds-\chi=\int_0^\chi\frac{1}{\alpha}ds-\chi=\frac{(1-\alpha)\chi}{\alpha}$.

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REALITIES AND PERSPECTIVES

Theoretical Models of Economic Recovery in Recession and Depression Phases

Gina Ioan[1]

Abstract. In recent years, specialists from many fields (economists, historians, sociologists) discuss intensely the phenomenon of global economic crisis. Discussions are diverse, contradictory and often with strong political charge. The debates generated by this phenomenon mainly focus on two themes: the causes of economic crisis and the correct solutions out of them.

Keywords: crises; free market; invisible hand; neoliberalism; liberalism

JEL Classification: E0

1 Introduction

Views regarding the causes of economic are different among specialists. Thus, those who sought and still seek answers and explanations to what is happening today in the economic world can be divided into two groups: the defenders of free market and another, supporters of state intervention in the economy. Defenders of the free market consider that the market can function freely allowed to self-regulate and the State can only make things worse.

The contrary, supporters of interventionism believes that the free market has failed and sees the state the only tool that can revive the economy.

Events affecting the world economy since 2007, revealed imbalances in the system occurred long time before the onset of economic and financial crisis.

One view, widely shared, is that the U.S. mortgage market turmoil was those that generated the crisis, but such causes are both macroeconomic and microeconomic nature. Excess liquidity, deregulation massive financial deleveraging, all these combined lead to a major crisis. The degree, to which countries, developed and emerging, have been affected economically, depends largely on the weaknesses of each economy and how they are exposed to toxic assets and how they respond to the crisis affected economies depends on macroeconomic policies and the levers that are used.

Specialists in all fields, economists, sociologists, historians and sometimes even people with little economic knowledge for living conditions are becoming more difficult, they ask whether these economic shocks can be avoided or at least reduced in intensity.

The causes of economic crises, how these crisis manifest and the undesirable effects of these events have raised several theories by followers of different doctrines such as Keynesian, Marxist, prekeynesiste, liberal. We talk a lot now about Minsky moment and financial instability theory. Even if economic crises, unwanted events, accompanied, historically, capitalist system we cannot agree with the view held by Marx and his followers who support the idea that the occurrence of crisis is specific just this type of system. Experience shows that planned economies have experienced economic shocks which often were hidden.

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2 The “Laissez faire” Model

Due to the complexity of economic phenomena, some economists believe the current economic crisis cannot be overcome by appealing to traditional models. Classical and neoclassical economists argue that guidance to overcome difficulties arising in the contemporary economy can be achieved by spontaneous market mechanisms. Other economists, advocates of Keynesian doctrine assigns the state a decisive role in economic recovery.

Until the greatest crises in history, Great Depression from 1929-1933, the capitalist society promoting a state with their strictly traditional, defense, internal order, according to liberal doctrine, which asserted the principle of self-regulating market without government intervention. The most famous proponent of classical liberal doctrine is Adam Smith (1723-1790) who promote the “laissez-faire” principle. Under this principle, Adam Smith considers that the in conditions of market freedom, individuals through their individual actions, motivated by selfish interests jointly contribute to the welfare of the nation.

In order to achieve better understanding its system of thought, Adam Smith, uses the concept of Homo Oeconomicus. For him, Homo Oeconomicus is, in terms of abstract, free trader characterized by:

a. rationality, natural human feature, which leads the individual to the final goal meaning achieving maximum profit with minimum effort;

b. selfishness (in economic terms), causing the individual to pursue self-interest. Adam Smith is convinced that Homo Oeconomicus has altruist qualities, is endowed with moral feelings. On this feature of Homo Oeconomicus, Adam Smith, in his book “*Theory of Moral Sentiments*”, in the chapter entitled “*On sympathy*” says the man “*are evidently some principles in his nature that make him interest in fate of others*” (Adam Smith, 1970, apud Popescu, 2004);

c. Freedom of action is based on the inviolability of private property. Any interference limit with freedom, distance individual rational from purpose goal, from maximizing of profit, and implicitly, from the provide welfare in entire society;

d. performs their work in a perfectly competitive environment;

e. operates in a social environment. Individual could not achieve their goals than under division of labor, establishing relationships with others.

On stage free market, consumers, producers and owners of production factors interact, each seeking to maximize their own satisfactions. Responsibility of an efficient allocation of market resources are income, prices and profits, guided, as Adam Smith showed us, by an “*invisible hand*”. Metaphor “invisible hand”, invented by Adam Smith, suggests that by developing self-interest, individuals indirectly stimulate the economy leading to increase of wealth. Although Adam Smith accepts a minimum state involvement with the task of determining the fundamental rules for the proper functioning of the market.

Therefore, Adam Smith sees the market as a decentralized coordination mechanism which not requiring state intervention, “invisible hand” fully justifying the “laissez-faire” principle. According the classical school, the ideal model of economic system was one which, under equilibrium conditions, work for themselves, governed by natural laws.

Early classics that were concerned with discovering natural laws of economics were the physiocrats. They have tried to define a different kind of society based on private property and freedom. According the current physiocrat, private property and individual freedom of action were solid basis on which it could build a free society. For physiocrats, laws and natural order were given by God, and the state only had to ensure that law and order were kept.

Unlike the physiocrats, Adam Smith considered the natural order was not given by God, it could be done when individuals do not follow this and each of them act only on behalf of self-interest, established itself over the entropic action of economic agents. What leads Homo oeconomicus towards equilibrium, maximum efficiency and prosperity is "invisible hand" (Popescu, 2004).

A lower presence of the state in the economy, makes entrepreneurship manifest freely in pursuit of goals. Thus, in trade "invisible hand" will guide each individual to the most advantageous trade exchange so, nation's wealth will increase quickly.

Regarding international trade, Adam Smith believes that "*when prefer to support the work of indigenous and not the foreign, he seeks only his own safety, and directing that activity so as to produce the greatest possible value, he is led by an invisible hand to promote an goal which is not part of his intention. Pursuing his interest, he frequently promotes the interests of society more effectively than when trying to promote*" (Adam Smith, 1962, apud Popescu 2004).

In conclusion, we can say that the *'laissez-faire*" principle have a prominently role in the debate on individual freedom and social harmony.

As a limit of traditional thinking we can mention that, within it, has not been analyzed the possibility of imbalances that might occur in economic reality. Economic society is analyzed in terms of an ideal state of stable equilibrium, that if, there is economic freedom, balance is achieved and work by itself. But the classical economists were unable to intuit that between their model of thought, perfectly justified then and the today reality, with all its economic, social, ethical, moral components there are big differences.

However, liberal doctrine (especially the writings of Adam Smith) stayed for a long time in the growth of American capitalist society and not only, where individual freedom has become the dominant principle.

3 The Keynesian Model

In opposition to the policy "laissez-faire" and "invisible hand" is Keynesian doctrine which holds that the free market imperfections can be corrected by government intervention, which also founds at the basis of economic equilibrium.

Result of the Great Depression, Keynesianism promotes a different conception of economic policy regarding new developments in society and also solutions to achieve full employment and economic recovery. In fact, full employment of labor is the peak of Keynesian doctrine, a modern concept of stable equilibrium being possible through government intervention, presented in his book "*The General Theory of Employment, Interest and Money*" (1936). The purpose of "*The General Theory*" Keynes says, is to find what causes a full employment of labor and can thus provide an explanation of unemployment that dominated society in early twentieth century.

In the new economic context, a different ideology is born, namely interventionism, whose onset is associated by economists with the Great Depression of 1929-1933. Considering that the origin of the 1929-1933 crisis was the overproduction phenomenon, supporters of interventionism have shown that market, left too free, could not be self-regulated through its own mechanisms, but rather it caused the imbalance and unemployment and for that they called State for an active role in economy, the only which could limit the negative effects of cyclical evolution of society.

The doctrine of John Maynard Keynes, the main representative of interventionism has been successfully adopted by many countries after the events of the years 1929-1930, manifesting a state control over resource allocation process.

According to some voices weighing in today's economic landscape, as Stiglitz, government intervention (not fine adjustment that recommended Keynes) is justified and necessary because the competition can only exist by state guarantee. State involvement in the economy is needed to reconcile the objectives of public and market objectives.

In the period after the Second World War until the late '70s, interventionism has undergone various stages of government intervention to correct market errors and limit the negative effects of economic imbalances, to that type of intervention that involving concerns in social protection. Also at this time, unfortunately, appeared an extreme form of interventionism, a totalitarian. This form of interventionism has been known to Eastern Europe, where it directed all state activity under conditions of total suppression of private property and individual freedom. Under this type of ideology, called Marxist ideology, all economic and financial resources were available to State and their allocation was possible only through a public decision.

We can say that state interventionism, through its various forms was born and developed an ideology to correct market imperfections and new developments in the political, economic or social.

4 The Neoliberal Models

The structural changes in economic environment since the Great Depression, made the Keynesian thesis to be effective for nearly 30 years, after recording some disappointments, mainly related to the effects of inflationary, of deficits out of control.

Again we return to the market and its laws, its decisive role, while the state has the role of supervisor of macroeconomic climate pursuing set the rules.

Massive investments have led to rapid productivity growth, thus ensuring continued growth in wages and consumption. Stimulation of aggregate demand, the low interest rates are incentive for new investments. To control of inflation and reduce the amplitude and duration of recessions were used various short-term stabilization policies.

For an accurate analysis of the two concepts of economic thought we must refer also to the two major economic crises that have accompanied economic development in the last century. Some economists believe that the invisible hand, the market through its self-regulation force will ensure economic balance. But they do not exclude the state role in terms of anti-crisis policies, but also the invisible hand will have the final role on the behavior of individuals. Thus emerges, the neoliberal current based on classical liberalism and aims at minimizing the state role in economy. So, unlike the laissez-faire, government intervention is considered necessary to guarantee the functioning of markets.

Promoters of this trend are considered first Austrian School economists: Friedrich Hayek and Ludwig von Misses or those of the German School and the other hand we can bring in discussion an American neo-liberalism associated with Monetarism School from Chicago by its chief representative, economist Milton Friedman.

In Romania, Mihail Manoilescu and Vintila Bratianu were among theorists of neoliberalism whose basic principles were: modernizing society, industry development, attracting foreign capital within policy “by ourselves” and, politically, a parliamentary regime based on universal suffrage. Liberalism of Austrian School, mainly promoted by Hayek and Mises that unlike the classical liberalism that no longer use the abstraction perfectly rational Homo Oeconomicus portrayed as the Adam Smith. The character who dominates the socio-economic environment is not that human caricature, but a social individual who is not driven by selfishness, but of other human-specific qualities. They believe, like Adam Smith, that when individuals pursue their interests, they create a spontaneous order. It would be preferable, Hayek believes, that the presence of the state in the individual life to be minimal, but as the experience demonstrated, a civilized socio-economic environment can only exist within a state which must assume this ingrate task and do this without being contrary to one's wishes.

Hayek is convinced that there is not economic liberalism outside the political, and because the man is a synthesis of culture, liberalism cannot exist beyond morality, culture, philosophy, ethics. In this social order, individuals must keep the rules relating to the normative economic and not to the way how they understand the world.

As Hayek and Mises, Milton Friedman sees a natural order possible by minimizing role of state in the economy and encourages the free market.

Milton Friedman, one of the exponents of the Chicago School, brings into attention in the classical liberal doctrine, showing that countries were applied liberal principles, they have worked as a propulsion engine guaranteeing a stable and functional economy. In his book “Free to Choose”, he believes that there should be a clear separation of state powers, even if the market can not exist outside the state. Faithful to liberalism, he exemplifies (analyzing the situation of the former USSR) that the free market is only able to ensure optimal allocation of resources and state excess are most harmful to the economy and society. Friedman believes that when the idea of equality prevails over the freedom, the individual ends up without having any of them.

Like Mises, Milton Friedman addresses the issue of consumer sovereignty. For Friedman, consumer sovereignty, meaning the freedom of choice is a basic principle of market economy. He believes that free competition gives the consumer the best protection and true sovereignty. For such a society is necessary to have private property, non-intervention in the economy, monetary stability and not least the appropriate laws.

Even if “*somehow or other, we are all Keynesians*”, this statement belonging to Friedman, the message of the ultra-liberal economist promotes the ability of free market to deliver a positive growth rate by polarization of capital for those who want to develop, so the state, through fiscal policy, often suffocating, it could not provide it.

5 Conclusions

The phenomenon of crisis is inextricably linked to economic activity, what means that, except effects, often hard in the economic, social or political life, it acts as a “surgeon” of development, revaluating relations or production methods at territorial or global level.

A History of economic crisis, the last two centuries, has revealed a somewhat heterogeneous causes that contributed to them and therefore an equally wide variety of ways to overcome them.

Like the Great Depression of the years 1929-1933, current economic and financial crisis broke out in the context of monetary loans which have reached dizzying rates coming to light those animal spirits Keynes talked about. Thus, from the experience of two major economic shocks, it appears that social memory of crisis is short and that human nature is largely responsible for the repeatability of these phenomena. Onset of any crisis is the effect of interaction of the two largest players in the economy: one that who offers and that who stimulating demand.

Despite some criticism of Keynesian theory, government intervention in regulating economic mechanisms is considered to be more necessary it is already present in the traditional liberal economies like the United States.

Mechanisms, sometimes difficult of the decision makers, particularly at the political level, in some countries may delay limiting the negative effects of the crisis and taking measures to overcome them, which, in terms of globalization, and sometimes can increase the duration of event macroeconomic imbalances.

Approaching the crisis in terms of classical models, induces a dose of risk that few countries are willing to uphold. Thus, the “laissez faire” economic self proved often limits due to, in particular, market actors inventiveness, discovery of the various financial engineers that have disrupted, finally, the natural course of the economy. Also, should not miss the political aspect, which may play an important role in the adoption of a set of effective measures for a sustainable economy.

Lack of social responsibility, ethics and morality is one of the factors underlying market failure, erosion of ethics in business being among the major causes of economic crisis. The feeling of distrust in economic and financial environment and in politics, it is inextricably linked to keeping or not keeping ethical principles for helping the smooth functioning of markets and companies (Dăianu, 2009).

If once the Great Depression, world of science met Keynes which was said to have been an economist who saved capitalism from itself, today we wonder what might happen in doctrinal level, after the crisis. In current times, with Keynes we bring into question both Adam Smith who founded the market economy, highlighting its virtues in increasing the wealth of nations and Marx who said that capitalism can destroy itself, he supporting replacement of it with the planned economy.

If current economic system, capitalism will destroy itself or it will be saved again, depends on the relation of two administrators to his: free market and state. Today, more than ever, the relation between administrators of capitalism is quite tense. After the Great Depression, considered by Hyman P. Minsky a failure of the capitalist system which could be resolved due to only a "Great State", the Winner was named State against Free Market and world economy recorded a macroeconomic balance period until the early 70 known as the Great Inflation. After 70 years, free markets regained their freedom again, being the basis of the economic progress as thought Adam Smith, Ludwig von Mises, Friedrich von Hayek, Joseph Schumpeter, Milton Friedman, etc.

Today like yesterday, we again appeal to the State to correct mistakes of free market, identified as the main culprit of the current crisis.

The current economic crisis has brought increasingly into question redefining the role of state in economy and self-regulating capacity of the free markets. The solution is not giving up entirely on liberal principles, unconditional acceptance of state intervention in the economy or just blaming capitalism, but also acceptance of "*creative destruction*" that Schumpeter considers "the core of capitalism" (Schumpeter, 2011).

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