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A New Managerial Tool For Scenarios In Scheduling

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Abstract: - The purpose of this paper is to introduce a newly developed managerial tool, Quality Scheduling Index (QSI), which can be used at the improvement of quality and time consumption within not only manufacturing companies. The authors present this tool as a result of the actual market conditions of finding a way for managing and controlling the usage of time, quality of work and the costs associated with these two factors. The paper is focused on the area of Management of Production and Operations with the main goal of developing the area of scheduling research and main purpose of increasing the productivity of a manufacturing enterprise by using at maximum the available resources, without any additional costs or investments. A survey is realized regarding the market requirements and partial empirical results of the authors' researches are presented, with conclusions being drawn for future studies. A scenario mainframe is also developed and a relation between QSI and scenarios is presented. The paper represents partial results of the grant projects GAČR P403/12/1950 and SGS13/191/OHK2/3T/12.

Key-Words: - quality, scenarios, scheduling, index, process

1. Introduction

Scenarios can be used in management in order for the company to learn and be prepared to answer the possible questions regarding the development of the business environment and the corresponding strategies. Managers should come together and decide about the next step in the company's future on the market. Scenarios are part of the selecting process of the right strategy for the required segment of the market and in nowadays market time usage and quality improvement can be considered strategic for the survival of the company.

Innovation is part of the company's business model and each company should decide which innovation portfolio to adopt according to the competitive environment. As Davila (2012) considers in his book, we too consider that the right amount of innovation at the right time, can differentiate winners from losers of the market and of the customers. He considers that there are two types of strategies (Play To Win Strategy and Play Not To Lose Strategy), which companies must consider on a long term to achieve their goals. In the same sense Gruia (2014a), considers that the innovation and development of the public sector are also important in the good development of the state, and thus the area of applicability of our research can be broaden in the private as well as in the public sector. We consider that the productivity of work can be increased by combining the quality of work, time consumption and appropriate sequencing rules.

Gruia & Kavan (2013a) show that the Just-In-Time delivering of the jobs from one working area to another, within a manufacturing company are in direct relation with the resources' utilization, but also with the Greedy approach of designing the production lines in order to minimize the total cost of the work load, according to the costs of the possible locations of the workplaces (Gruia & Kavan, 2013b).

The present paper aims to present a way for solving two main problems, i.e. quality control and time management within the companies, with only one managerial tool and to show how this new developed tool, can affect the decisions and strategies taken by the top management within the public, as well as private sector. The research for our paper is focused on the field of quality management and operational management (specifically the scheduling of manufacturing operations on the production lines).

In order to find the latest studies regarding Scheduling operations in a manufacturing company, a research was made with the help of online scientific databases. Based on the initial research of scientific papers, books as well as by developing a new questionnaire, the market was tested and it was discovered that one of the main problems which affects the productivity of work in manufacturing processes, is the quality of time consumption in scheduling manufacturing process. The survey was taken by scheduling professionals, online with the help of the website SurveyMonkey and Linkedin, where the link to the survey was posted online on scheduling groups, which are visited and read every day by professionals and quality and scheduler practitioners. The questions were designed in such a way so that it was obtained as much information as possible from apparently simple questions (the bias of the questions were minimized). Based on this survey, it was discovered that there is a need in the market of a way of managing the time usage and quality of workforce together, as well as the important role the customers' perception plays in the establishment of the management of the utility value and accordingly of the quality of the products.

By analyzing the results of this survey, we have found that a number of more than 88% of the managers are willing to manage the quality of the work and the time used on the production line, with the help of only one tool, which we have developed as part of one authors' doctorate thesis and which we will further present.

Thus the present paper presents a new solution, i.e. Quality Scheduling Index, to the market requirements regarding quality and scheduling management and ways of improvement which can be further used in the scenarios done by the managers and implemented in their long-term strategies.

2. Quality Scheduling Index and its role in scenarios development

Managers in manufacturing companies are facing every day with questions like:

"How can we deliver the goods requested by the market at the desired level of quality?" AND "How can we deliver our products at the right moment (Just-In-Time)?"

These questions are part of our Research Questions and are the basis for the newly developed Quality Scheduling Index, which can be implemented in different scenarios to help them decide which strategy to adopt on the desired market.

Based on one of the author's research as part of his Ph.D. thesis, we can consider different scenarios based on different values of the QSI. The main goal of the index is, based on the input data, to find the best value for obtaining maximum value for the requested quality level by the customers, with minimum production costs and time usage.

The level of quality is settled according to the utility level, different customers consider for the desired products. In collaboration with the marketing and CRM/CI departments, companies should find the needs and the problems of the customers and develop strategies based on different scenarios, which in turn are based on the computational values of the Quality Scheduling Index, for different levels of quality desired by different customer segments from different markets.

Van der Heijden (2005), states that the language of the scenarios is about the future of the company, but it should differentiate how a company should act in the present. And with the help of the Quality Scheduling Index, different scenarios can be stated and some strategic decisions can be taken accordingly. The usage of the index is for the area in time when the level of uncertainty is bigger and the level of predictability is lower than in the area of planning based on forecasting, i.e. the area of planning based on scenarios for the development of new business strategies. This can be better seen from the figure below.

Companies should use time and quality of time consumption in planning and deciding next steps for maintaining the same or better level on the market. With the help of the Quality Scheduling Index, one can improve the productivity of work within company and thus can produce better and faster outputs with the same inputs (resources, financial and non-financial).

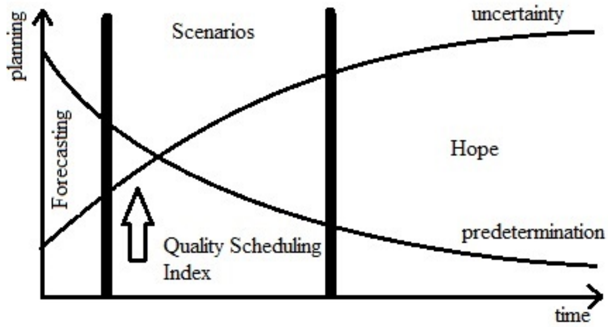

Fig. 1 – Position of QSI in planning using scenarios

Source: Own contribution, based on figure "Balance between uncertainty and predetermination" adapted from Van der Heijden (2005)

We all know that productivity is the ratio between output and input,

$$productivity = \frac{output}{input} \tag{1}$$

and if we know that the input is according to the standards (for e.g. the raw material is delivered in time, at the required quality standard imposed by us, the company, the people are trained and chosen by the HR department to work within our company according to our needs and financial resources and our equipment is advanced enough to perform well our manufacturing operations), the only way to improve the productivity of the company and our work is to increase our output to the market. By output, we understand either a bigger number of products (but which must comply with quality standards) or the same amount of products, but with better quality. In the second case, the quality of the products is improved, thus the company reduces its time (and accordingly its costs) dealing with service, rework or maintenance of our products, when they broke. Also customers will recommend our qualitative products to their acquaintances and relatives and our market share will raise, qualitative products being one of our competitive advantages and thus part of the company's strategy.

If we consider either two cases, we can increase the output of the company by organizing the resources on the production line to produce faster and better products, without any additional costs. That is why here we present the newly developed Quality Scheduling Index which can improve the output of the company and in this way the management can use it as managerial tool to improve the productivity within the company and plan on larger time interval, than the one, where forecasting is used, in order to expand on other markets, destroy the actual competition and faster innovate the products in a radical way, rather than semi-radical one.

A manufacturing company can thus better implement a radical innovation in either the technology or in the business model, or in both actually, by reducing the risk involved with this kind of innovation, because, now, after implementing the QSI on the production line, the time usage of the workers is without any "dead" time, the company doesn't lose money from this, nor uses additional resources than the ones which are absolutely needed for the production process and can relocate these resources in the R&D department for the next generation of products.

However, without strong leadership and vision from the top management, the innovation is not likely to be achieved and implemented in the company's culture. The difference between the two possible types of strategy is given by internal as well as external factors of the company. Between the internal factors, we can recall:

- Technical possibilities
- Organizational abilities
- Success of the actual business model
- Finances
- Vision of the company

And we can add to the internal factors, which drive innovation through the company, also:

- Innovation culture and willingness to improve the process without any financial drive incentives---and this factor can be easily solved with the help of the QSI.

Every manager wants to develop its products with the minimum production costs, at the highest quality and in the fastest way possible, so that he can take the lead in the market with the innovation of the product. That is why we have developed the following mathematical index:

$$\mathrm{QSI} = \frac{\sum_{i=1}^{h}\sum_{k=1}^{f}(ew_{ki}E_{ki}y_{ik} + tw_{ki}T_{ki}z_{ik} + w_{ki}C_i)}{\sum_{i=1}^{h}\sum_{k=1}^{f}\frac{q_i}{tc_i * (E_{ki} + T_{ki} + C_i)}} = min \tag{2}$$

which can be useful for minimum values.

We can state that this index has the following important roles in a manufacturing company:

1. Considers especially the processes which have delays and those which are made in advance than their planned schedule, making the management to consider these delays and advances from a financial point of view;
2. Considers quality not only from the ISO norms' point of view, but also from their customer's segment point of view which they want to target with their products, by trying to develop an equation for the level of quality based on the utility values and which processes add this value on specific working places on the production line;
3. It evaluates the time consumption with regard to the quality level and production costs and helps improving the production processes, by increasing the work productivity;
4. Has a positive influence on long term planning within the company based on different scenarios, where can act as a good managerial tool and can answer to questions like:

Are we well prepared and do we manage our actual processes good enough to make the next step and implement a radical innovation in our business model and/or technology?

What will happen if we increase the quality of the products?

How can we increase the quality of products and faster deliver our products on the market?

How will influence our manufacturing costs the increase in quality? and

Where should we act on the production line to increase quality, reduce production time and costs related to time consumption?

5. Can be used as a motivational tool for employees, for managing processes in such a way so that the needed quality level to be obtained, together with the corresponding costs and time, so that together to reach the previously computed Quality Scheduling Index, by the management. In this consideration QSI can be used as a Key Performance Index for the quality of the work of each worker and can have impact on the salary if the worker has reached his previously settled target or not.
6. Can reduce the risk of failure, of the company which can rise from the possible scheduling scenarios related to the semi-radical innovations in business model or technology. By analyzing the processes where the quality can be increased and by taking necessary steps in increasing it, the risk of failure at the operational level is reduced, because as part of the implementation, the management should redesign the production process according to the greedy algorithm and increase of the resource utilization. The index can considered as an effective tool for evaluation of the effects of scheduled changes to the design and operational procedures, as function of quality, time and total costs.

The index can be also used as part of the top management's vision of innovation the business model, by adding value to the produced final products, by increasing the quality and reducing the time spent with their production. Here by "reducing time", I consider reducing of the unnecessary time spent of the product on the production lines, reducing or even elimination of the waiting / dead time of the products from their technological processes and manipulation.

Whatever part of the innovation process we want to improve (business model or the technology), we should also increase productivity of the processes, by reducing the time spent with them and correspondingly the costs, and increasing the quality of the processes and of the products.

The success of the actual business model, as one of the internal factors which influence the choosing of the right innovation strategy, can be analysed from the productivity point of view. Managers must look at the processes and based on different scenarios, made from the data from the customers and suppliers, i.e. data from CRM and CI, should improve the time spent in the factory with the production of their goods, but without reconsidering the quality level required by the standards on one hand (ISO 9001, 14 000, 18 000, etc.) and also by the customers, on the other hand.

We consider that a manufacturing small or middle size company can develop its innovation strategy based on scheduling the internal processes in a productive way.

In other words the following main *scenario mainframe* should be maintained when dealing with a new scenario, as part of the future strategy:

1. Arrange the working areas with the corresponding tools in a "greedy" manner so that each worker can be accounted responsible for his work, if any fault will appear.
2. Prioritize the work according to the available resources and the main skills of the workers so that the time and quality can be maintained within standards.
3. Consider and arrange the machines in a parallel way in order to increase productivity and schedule the manufacturing operations with a focus on quality, time and their corresponding costs.
4. Deliver goods to the market and receive feedback from both the customers and workers in order to improve the process.
5. Adjust the short term and long term strategy of the company, based on the feedback and obtain approval from the stakeholders, with regard to the fulfilment of their needs.

If we look at the first three points of the above mentioned mainframe, we see that we should analyse three different problems in terms of improving the productivity of the company. However in order to create a scenario, all these different views are needed. One view cannot be good enough to create a scenario as part of a long term strategy. That is why scenarios are very difficult to create and implement in a company, i.e. because when we talk about scenarios we should consider different points of view of the same problem in order for managers to come to a single generally accepted idea.

The scenario should take in consideration the companies outside environment as well as the internal one, which is responsible for production and shipment of the goods.

This tool, QSI, can be used for adjusting scenarios made after the external environment has been known. We focus on improving the strategy, by managing the internal processes of the company in a productive time manner.

With the help of Design Of Experiments, based on the input data from the company and feedback from the customers, according to the quality level of the products, we can simulate different scenarios with outputs, which can be used to answer the market conditions and which can be further implemented in the long term strategy of the company. Thus using data from the manufacturing process, in connection with the customers' utility value for our products, we can run different experiments, from which we can draw different conclusions, take specific actions and learn how and where to improve the production processes, in order for the production to be in the Just-In-Time manner.

3. Design of Experiments for QSI

We are interested in the effect of different scheduling scenarios, from the implementation of the Quality Scheduling Index, on the utilization of the available resources. In this manner we want to test the robustness of the newly developed index.

As Gruia (2013) has proven, by using a 2^4 factorial design he has showed that the quality function which he considered was viable and applicable in a simple logistical problem as well as into a more complex scheduling problem, as is the case of this research.

We want to see if the model is robust enough to sustain manufacturing of products so that the manufacturing process and its quality will not be affected by the variability transmitted by the components of the system, like priority of the job (A), capacity utilization of the available resources (B), processing time (C) and preparation time for the next operation (D).

Based on the 2^4 factorial design, from the previous studies, we assume that the processing time of the job, denoted by C, is difficult to control in a real situation where jobs are formed of more than one operation and the technological process should be smooth without any delays or works in advance of the schedule, but it can be controlled in the pilot scale experiment, which we have performed. The other factors A, B, D are on the other hand easy to control in a real situation based on the technological requirements.

Thus the noise factor (or the uncontrollable variable which cause variability in the quality of the job formed of more than one operation) is factor C, the processing time, which we denote by p_1, while the controllable variables we denote with c_1, c_2 *and* c_3 for priority of the job (A), utilization of the available resources (B) and respectively preparation time for the next operation (D).

According to Montgomery (2005) a general representation of the regression model of Gruia's 16-factorial experiment can be written as:

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_{12} x_1 x_2 + \beta_{13} x_1 x_3 + \beta_{14} x_1 x_4 + \beta_{23} x_2 x_3 + \beta_{24} x_2 x_4 + \beta_{34} x_3 x_4 \qquad (3)$$

According to table 1, the both the controllable factors and noise factors are in the same 2^4 factorial design and we can apply the combined array design in order to investigate the effect of these factors on the quality of the work from the production process.

The general response model of control and noise variable has the following general form:

$$y(\bar{c}, \bar{n}) = f(c) + g(c, n) + e \qquad (4)$$

where function $f(c)$ is function of the controllable variables c and the function $g(c, n)$ considers the interactions of the noise variables n and the interactions between the noise and controllable variables.

If we assume that the noise variables have the mean zero, variances $\sigma_{n_i}^2$ and zero covariance and if the errors e have zero covariance, then the mean model for the response of the factors affecting the product is:

$$E_n[y(c, n)] = f(c) \qquad (5)$$

And the variance model for the response will be accordingly:

$$V_n[y(c, n)] = \sum_{i=1}^{j} \left(\frac{\partial y(c,n)}{\partial n_i}\right)^2 \sigma_{n_i}^2 + \sigma^2 \qquad (6)$$

Using the results from table 2, the response model will be considered for noise factor processing time of the job (C) and controllable variables c_2 *and* c_3, the utilization of the available resources (B) and respectively preparation time for the next operation (D):

Run Number	Factor A	B	C	D	Run label	Quality qi
1	-	-	-	-	(1)	1,030507545
2	+	-	-	-	a	1,007462277
3	-	+	-	-	b	12,74211248
4	+	+	-	-	ab	2,289437586
5	-	-	+	-	c	1,000001207
6	+	-	+	-	ac	1,000000302
7	-	+	+	-	bc	1,000120665
8	+	+	+	-	abc	1,000030163
9	-	-	-	+	d	1,000003981
10	+	-	-	+	ad	1,000000995
11	-	+	-	+	bd	1,000398264
12	+	+	-	+	abd	1,000099536
13	-	-	+	+	cd	1,000000926
14	+	-	+	+	acd	1,000000231
15	-	+	+	+	bcd	1,000092601
16	+	+	+	+	abcd	1,000023149

Table 1 – The quality of i-th bee experiment
Source: own contribution

$$\widehat{y(c,p_1)} = 1{,}81689 - \left(\frac{0{,}46762}{2}\right)p_1 + \left(\frac{0{,}458428}{2}\right)c_2 - \left(\frac{0{,}46753}{2}\right)c_3 - \left(\frac{0{,}45836}{2}\right)c_2p_1 + \left(\frac{0{,}467525}{2}\right)c_3p_1$$

$$y(c,p_1) = 1{,}81689 - 0{,}23381p_1 + 0{,}229214c_2 - 0{,}233765c_3 - 0{,}22918c_2p_1 + 0{,}23376c_3p_1 \quad (7)$$

Using equations (5) and (6) we can compute the mean and variance of the model as:

$$E_n[y(c,p_1)] = 1{,}81689 + 0{,}229214c_2 - 0{,}233765c_3 \quad (8)$$

$$V_n[y(c,p_1)] = \sigma_{p_1}^2(-0{,}23381 - 0{,}22918c_2 + 0{,}23376c_3)^2 + \sigma^2 \quad (9)$$

We will further assume for the simplification of the computation, that the noise variable, which in our case is the processing time of the job formed of more than one operation (C), has the highest and lowest values deviated with one standard either sides of the average value so that we can use in our computations:

$$\sigma_{p_1}^2 = 1 \quad (10)$$

Model term	Effect estimate	Sum of squares	Percent contribution
A	-0,28061	0,314976	3,726%
B	0,458428	0,840625	9,944%
C	-0,46762	0,87468	10,347%
D	-0,46753	0,874353	10,343%
AB	-0,27506	0,302625	3,580%
AC	0,280573	0,314885	3,725%
AD	0,280521	0,314767	3,723%
BC	-0,45836	0,840383	9,941%
BD	-0,45828	0,840068	9,937%
CD	0,467525	0,87432	10,342%
ABC	0,275017	0,302538	3,579%
ABD	0,274966	0,302424	3,577%
ACD	-0,28052	0,314755	3,723%
BCD	0,458267	0,840036	9,937%
ABCD	-0,27496	0,302413	3,577%

Table 2 – Factor effect estimates and sums of squares for our 2^4 design
Source: own contribution

And the residual mean square obtained from the response model, i.e. the model which incorporates the controllable as well as the noise variables, as seen from the table below, will be:

$$\widehat{\sigma^2} = 0{,}414948675 \quad (11)$$

Source of variation	Sum of Squares	Degrees of freedom	Mean square	F_0	P-value
C	0,87468	1	0,87468	2,10792	0,09438
B	0,840625	1	0,84062	2,02585	0,10005
D	0,874353	1	0,87435	2,10713	0,0944

BC	0,840383	1	0,84038	2,02526	0,10009
CD	0,87432	1	0,8743	2,10705	0,09444
Error	4,149487	10	0,41494		
Total	8,453847	15			

Table 3 – Analysis of Variance for the pilot experiment with factors C, B and D
Source: own contribution

If we analyze the values of the F_0, F-statistic, which is calculated by taking the mean square for the variable divided by the mean square of the error, it represents a ratio of the variability between groups compared to the variability within the groups. If this ratio is large enough, then the p-value is small producing a statistically significant result (i.e. rejection of the null hypothesis). The acceptation of the null hypothesis means that all the group population means are equal versus the alternative, i.e. rejection of the null hypothesis, that at least one is not equal.

The p-value is the probability of being greater than the F-statistic or simply the area to the right of the F-statistic, with the corresponding degrees of freedom for the group (which is equal to 1) and error (total sample size minus the number of group levels, or here 15 – 5 = 10). The F-distribution is skewed to the right (i.e. positively skewed) so there is no symmetrical relationship such as those found with the Z or t distributions. This p-value is used to test the null hypothesis that all the group population means are equal versus the alternative that at least one is not equal. The F-statistic will always be at least 0, meaning the F-statistic is always nonnegative.

In our case for values of "p-value" less than 0,05 it indicates that the model terms are significant. But if we analyze the results there are no significant model terms and values greater than 0.1000 indicate the model terms are not significant.

For example F_0 of 2,10792 implies that the model is not significant relative to the noise and there is a 9,43% probability that a value of F_0 this large could appear due to the noise factor.

Thus Gruia's model (2013) can be successfully applied in jobs with more than one operation and the processing time of the operations will not influence the utility function of the final product.

By substituting equations (10) and (11) in (9), the variance model becomes:

$$V_n[y(c,p_1)] = 0{,}469615 + 0{,}107169c_2 - 0{,}107146c_2c_3 - 0{,}10931c_3 + 0{,}05252c_2^2 + 0{,}05464c_3^2 \quad (12)$$

With the help of Design Expert 8 software, we can draw the contour of the utility function (see figure 4) used in the model of jobs with more than one operation, which is influenced by the noise variable (processing time of the operations) and controllable variables (the utilization of the available resources and respectively preparation time for the next operation). Also with the help of the same software we can draw a surface response model (see figure 5), where one can see the variance in the utility function given by the capacity and processing time of the operations.

The variation is smooth in 3D and we can conclude that the model of the Quality Scheduling Index, which was developed for jobs with one operation can be successfully applied for jobs with more than one operation, because the processing time of each operation in part will not affect the sequence and schedule of the others, nor the available capacity utilization of the available resources.

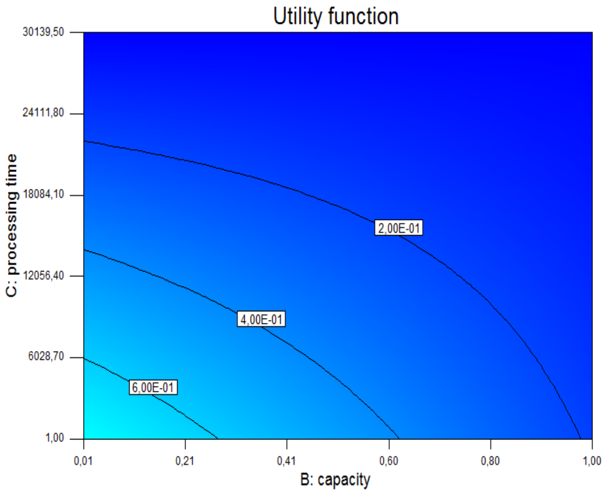

Fig. 4 – Contour plot of the utility function from the Quality Scheduling Index model
Source: own contribution

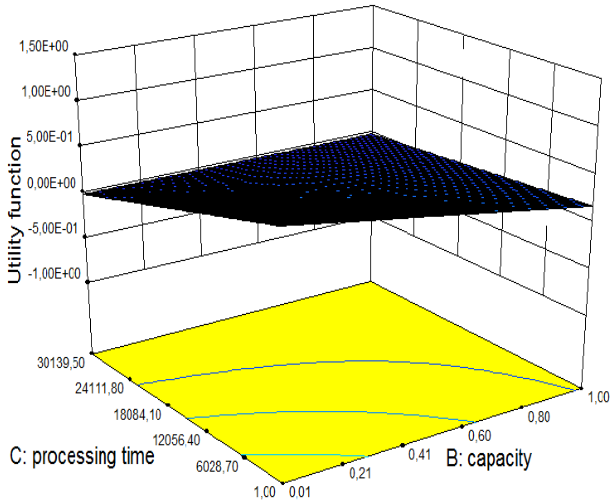

Fig. 5 – Response surface plot of the Quality Scheduling Index model
Source: own contribution

The model is viable and can be successfully applied for jobs with one operation. The case when the jobs are composed of more than one operation can also be considered, but the manufacturing processing times should be known in advance for each operation. The Quality Scheduling Index was developed in such a way, so that it can be applied to both cases of jobs with one as well as with more operations. The only difference is in the implementation methodology which I will further present.

When dealing with jobs with more operations with the same goal of increasing the productivity, specifically to increase the quality of the workforce and decrease the time and costs associated with the manufacturing processes, we should decompose each job according to the resources which are used, time consumption and required level of quality.

By applying this index, the managers can compute the best values according to their specific customers' and standard's limits and the company can take these values and use them to evaluate their our manufacturing process. Doing so, they have a way of improving their processes using their actual data, computed from their customers' utility value. The values of the QSI can then be implemented back into the individual manufacturing operations, according the optimal values of the quality, time and costs which have to be maintained at all considered working areas, so that the process to be Just-In-Time.

4. Conclusion

The paper presented a new managerial tool, i.e. Quality Scheduling Index, which was developed in compliance with the present market conditions. A connection between the index and scenarios was also presented and a scenario mainframe was developed accordingly. The roles and importance of the index for the management are presented. An initial study was done by the authors as part of their research grants and accordingly actions were taken in order to solve the problem of increasing the productivity, which is still a major problem in, but not limited to, manufacturing companies worldwide.

The model was developed with the main goal of increasing the work productivity within the company. The robustness of the model is tested and we find out that a less than 10% probability exists that our model, which is in direct relation with the utility function of the customers and productivity of our company, to be affected by processing time of each operation. Thus the duration of each operation can affect the satisfaction of our customers in a small percent, but on the other hand we have showed that there exists a probability higher than 90% to increase the productivity using our QSI index which is focused on scheduling the operations and quality of the work done by the employees.

This paper presented partial results of the research done by the authors within their research grants. Also it represents part of the Ph.D. thesis of one of the authors (Gruia, 2014b).

To sum up, the index QSI can be successfully applied for jobs with one and more than one operation in order to measure, control and improve the time consumption on the production lines and quality of work, which affect the productivity of the company in a direct way.

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Innovation In The European Union[1]

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Abstract: - In the contemporary knowledge-based society, innovation, as a vector used for the application and promotion of inventions and innovations, is one of the main sources used for obtaining a sustainable competitive advantage.
The present paper points out the main directions which the European Commission aims to develop in the sphere of innovation, within the context of the Initiative: “A Union of Innovation”, which is part of the Europe 2020 Strategy. The paper analyses the performances accomplished by the EU states in the area of innovation while developing an international perspective that may represent the starting point in identifying solutions whereby the EU could reduce the gaps that exist in relation to the main international competitors, i.e. South Korea, USA and Japan.

Key-Words: - innovation, research-development, European Union, Europa 2020 Strategy, economic performance.

1. Introduction

Innovation activities imply the creation, adaptation and adoption of new products, services and technological processes, as well as the improvement thereof. Innovation policy may be defined as a set of coordinated actions whose main objective is to enhance the efficiency of the innovation activities[2].

The “Dictionary of Modern Economic Sciences” approaches innovation as an instrument that is frequently used both with reference to technological advance made in production processes, and with reference to introducing attributes and combinations of attributes for the traded products. As to products, innovation is a source of differentiation used by manufacturing companies for generating demand and, similarly, for enhancing their market share.

The innovative potential of an organization is a function with more variables, of which we mention the creative capacity of human resources, the competence of the managerial team, as well as the existence of financial-motivational mechanisms that support the creation, experimentation and transformation thereof into competitive market products and services.

In the contemporary knowledge-based society, innovation – as a vector of application and promotion of inventions and innovations – is one of the main sources which generate a sustainable competitive advantage.

The knowledge-based society relies on innovation and the on-going training of its members, which, in its turn, relies on a large community of researchers, academics, engineers, all of whom being included in a

[1] This paper was presented at CKS 2014 International Scientific Conference.
[2] Iancu, A., *Cunoaştere şi Inovare. O abordare economică,* Bucharest: the Romanian Academy Publishing House, 2006.

university network, in research centres and innovation-oriented companies that offer high-technology products and services and that use and process information[3].

Innovation was one of the main topics approached at the 6th edition of the World Science Forum[4] held at Rio de Janeiro on 24th-27th November 2013. Thus, the "Declaration of the World Science Forum" presents five recommendations, of which two refer to innovation activities:

- training for reducing inequality and promoting sustainable science and innovation worldwide;
- ethical and responsible attitude in research and innovation.

In the epoch of worldwide science, scientific authority must continuously implement self-analysis and self-assessment in relation to the responsibilities, duties and behaviour rules that are specific to the field of research and innovation.

When selecting and implementing research-development and innovation projects (RD&I) that are supported by governments (administrations) or private companies, science promoters and scientists, as well, are primarily responsible for maintaining a constant long-term interest in morality and society and secondly they are responsible for maintaining a constant interest in the short-term economic and political interests. Social inclusion, as a key-part of sustainable development, is an absolute necessity for scientific research, technology and innovation[5].

2. Innovation, an essential coordinate for Europe 2020 Strategy

In 2010, the European Commission adopted Europe 2020 Strategy, which is structured on 3 major coordinates[6]:

- intelligent growth – development of a knowledge & innovation-based economy;
- sustainable growth – promotion of a more efficient, more competitive and more environmentally-friendly economy as regards the use of resources;
- growth which facilitates inclusion – promotion of an economy with a high employability rate, which may ensure economic, social and territorial cohesion.

These three important axes of development support each other and represent a general perspective over the 21st century European social market economy.

Intelligent growth implies the consolidation of knowledge and innovation, as essential vectors for society and the knowledge-based economy. In order to achieve this objective, it is necessary to implement the following measures:

- enhancement of quality in the educational systems;
- enhancement of performances in research activity;
- promotion of innovation and transfer of knowledge within the EU space through IT and communication technology;
- developing the entrepreneurial spirit, which is opportunity-oriented and which adapts to the users' needs on the market.

One of the seven initiatives set forth in the Europe 2020 Strategy is the initiative: "A Union of Innovation". The objective of this initiative is represented by the orientation of research-development and innovation policy towards the challenges of the contemporary society, i.e. climate changes, energy and the efficient use of resources, health and demographic changes. Each link in the innovation chain should be reinforced for all activities ranging from fundamental research to trading. The European Commission is going to take measures like:

- completing the creation of a European Space for Research, creating a strategic agenda for research that is centred on a set of priorities, of which we mention energetic security, transports, climate changes, the efficient use of resources, health and aging, ecological means of production and land management;

[3] World Science Forum, ***Knowledge and Future, Budapest: 5th-7th November 2009.***

[4] The World Science Forum (WSF) is an event organized every other year under the aegis of the President of Hungary, the Managing Director of UNESCO, the President of the European Commission and the President of the International Scientific Council. In its first edition, WSF was organized in a different country, i.e. not in Hungary, as part of a strategy which was meant to reflect the modifications incurred in the landscape of science and in order to help the forum benefit from the contribution and the accomplishments of the scientific powers set up at scientific initiatives and, finally, in order to promote the forum in other regions.

[5] World Science Forum, *Science for Global Sustainable Development*, Rio de Janeiro, 24-27 November 2013.

[6] European Commission, *Europe 2020*, Brussels, 2010.

- improving the innovation conditions-framework for the business environment, the setting up of a European Unique Patent, a Court of law with jurisdiction in the matters of patents, modernization of the copyright and trademark protection framework, improving access of SMEs to copyright, speeding up the implementation of inter-operation standards, facilitating access to capital and the full usage of policies for secondary demand, e.g. through public acquisitions and intelligent regulations;
- launching European partnerships in the area of innovation between EU and national levels in order to speed up development and the use of technologies that are necessary for coping with challenges;
- reinforcement and further development of the role played by EU instruments in supporting innovation (e.g., structural funds, rural development funds, the Framework Programme - Research - Development, the Framework Programme – Competitiveness and Innovation, Plan SET), including through a closer collaboration with the European Bank for Investments through the simplification of administrative procedures in order to facilitate access to finance, especially for SMEs;
- promoting partnerships for knowledge and consolidation of the connections existing between education, enterprises, research and innovation, including through the European Institute for Innovation and Technology (EIT), as well as promoting the entrepreneurial spirit by supporting young innovating companies.

3. Performances of EU states within the area of innovation

The program of the Innovation Union, 2014 edition, designed by the General Directorate "Enterprises and Industry" within the European Commission, groups EU states into four categories as to the performances they obtained in the innovation activities[7]:

- ➢ Denmark (DK), Finland (FI), Germany (DE) and Sweden (SE) are "leaders in the area of innovation"; their innovation performances are much higher than the average level recorded within the EU;
- ➢ Austria (AT), Belgium (BE), Cyprus (CY), Estonia (EE), France (FR), Ireland (IE), Luxembourg (LU), the Netherlands (NL), Slovenia (SI) and the United Kingdom (UK) are "supporters of innovation", who obtained performances in the area of innovation that are above the average level or close the average level reached by the EU countries;
- ➢ Croatia (HR), the Czech Republic (CZ), Greece (EL), Hungary (HU), Italy (IT), Lithuania (LT), Malta (MT), Poland (PL), Portugal (PT), Slovakia (SK) and Spain (ES) are "moderate innovators"; they recorded performances in the area of innovation that are below the average level reached by EU states;
- ➢ Bulgaria (BG), Latvia (LV) and Romania (RO) fall into the category of "modest innovators", whose results in the area of innovation are significantly much lower than the average reached by EU states.

This classification of EU states from the perspective of the innovation performances that they reached relies on 25 indices, which belong to three basic groups:

- ✓ enablers (human resources; open, excellent and attractive research systems; finance and support);
- ✓ firm activities (firm investments; linkages & entrepreneurship; intellectual assets);
- ✓ outputs (innovators; economic effects).

[7] European Commission, Directorate-General for Enterprise and Industry, *Innovation Union Scoreboard 2014*, Brussels, 2014.

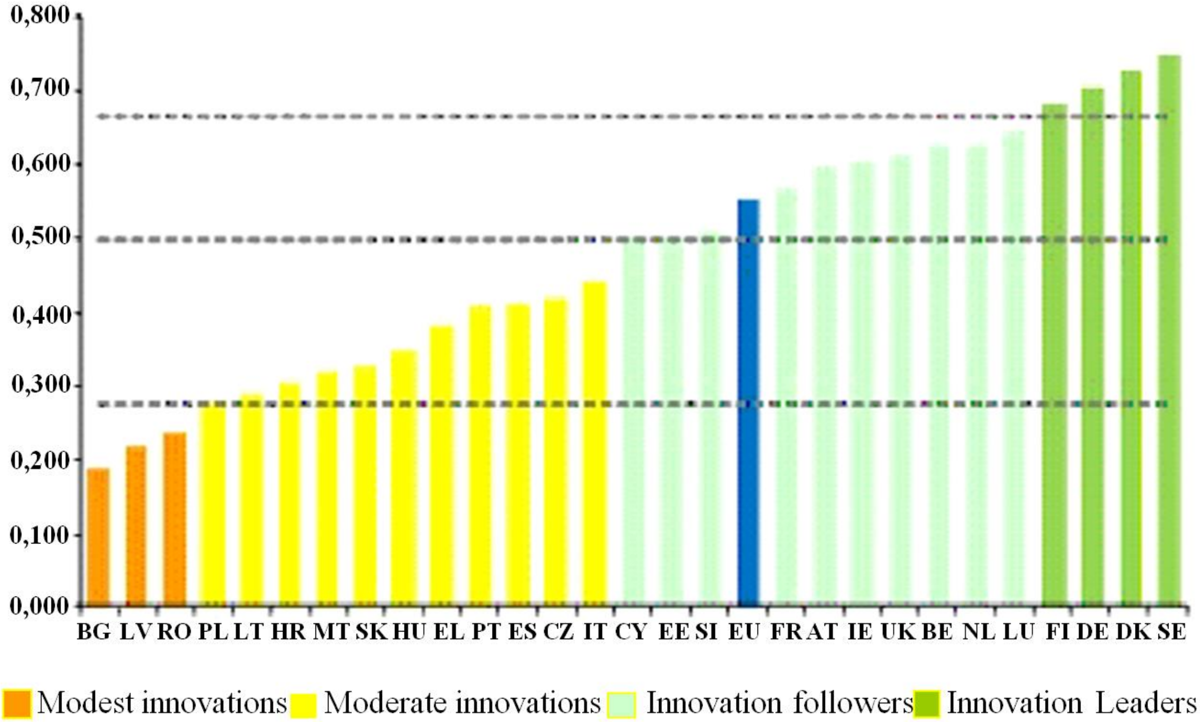

Figure 1. EU Member States' innovation performance8

The states belonging to the first group have excellent results that clearly rank them above the EU average in the innovation key-domains, from higher education and research systems, which imply innovating and active intellectual trading activities, to innovation accomplished within SMEs and the economic effects thereof, a fact which illustrates balanced national research and innovation systems.

The classification made within the European Union is relatively stable for Sweden, which appears as a leader, and which is followed by Denmark, Germany and Finland; these four countries grant the biggest financial resources for research and innovation. Portugal, Estonia and Latvia have recently recorded the most significant progress in the area of research and innovation, while Poland is the only country that evolved from the category of "modest innovators" to the one of "moderate innovators".

As to the countries which do not belong to the EU space, it is interesting to notice the fact that Switzerland remains a leader in the area of innovation, recording the best results in 9 of the 25 indices used for classifying states from the point of view of performances obtained in innovation. Island is also above the EU average, having the status of "innovation follower", while Norway and Serbia are "moderate innovators"; Macedonia, a country belonging to the former Republic of Yugoslavia, and Turkey belong to the category of "modest innovators".

At regional level, one can notice that the most innovative regions of the EU are, basically, identical with the most innovating states. However, 14 countries have performance groups and 4 member-states (France, Portugal, Slovakia and Spain) have regions in 3 regional performance groups, a fact which indicates differences in the area of performance and innovation, which are more visible within those states. It is only Austria, Belgium, Bulgaria, the Czech Republic and Greece (which belong to the EU), as well as Switzerland (which does not belong to the EU), that have a relatively homogenous performance in innovation because all the regions in those countries belong to the same performance group[9].

4. An international perspective

At international level, the EU is exceeded by South Korea, USA and Japan, which currently are undoubtedly leaders in the area of innovation. The performances recorded by the first two countries, South

[8] Idem.
[9] European Commission, Directorate-General for Enterprise and Industry, *Regional Innovation Scoreboard 2014*, Brussels, 2014.

Korea and the USA are 17% higher than the results recorded by the EU, while Japan has recorded performances that are 13% higher than the ones recorded with the EU area.

The main innovation leaders, USA, Japan and South Korea are ahead the EU especially as to the indices that measure enterprise activity, expenditures made for research and development, publications edited in collaboration by the public-private sectors and the patent applications for PCT, including as regards the results obtained in education that are measured through "the percentage of the population that has graduated a university"[10].

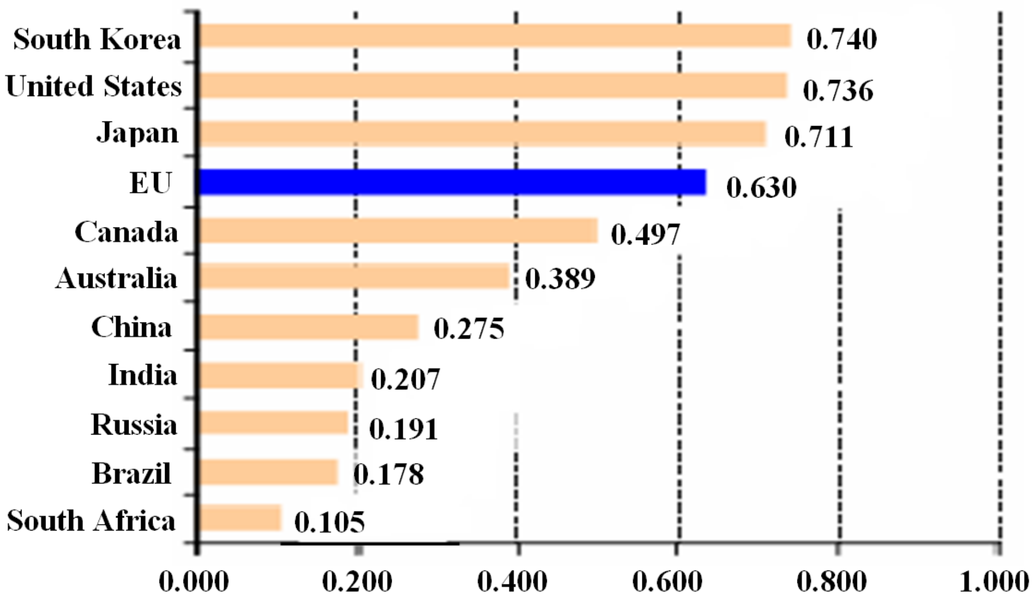

Figure 2. EU Innovation performance compared to main global competitors[11]

The performances of the EU in the area of innovation are superior to Australia and Canada, whose results represent 62%, respectively, 79% of the EU performances in the domain.

Similarly, the EU is one step ahead in comparison with the BRICS countries group, made up of Brazil, Russia, India, China and South Africa. The gap between the EU and the BRICS countries is increasing with only one exception, i.e. China, the second economic power of the world, whose performance in the area of innovation amounts to 44% of the level reached by the EU; however, this gap tends to diminish because the results obtained in the area of innovation advance with a higher speed in comparison with the EU area.

Consequently, the EU must continue to make efforts as regards the cooperation of EU member states in the domains of education, culture, enterprises and employability, developing the young people's entrepreneurial spirit, and developing innovative behaviour within public and private organizations.

In this context, Antonio Tajani, the Commissioner for industry and entrepreneurship and Deputy President of the European Commission, declared: "The general spread of innovation in the entire European space remains a priority if we wish to achieve our industrial policy objective according to which, until 2020, at least 20% of the EU GDP could be generated by the manufacturing industry. A large number of enterprise investments, a higher demand of European innovating solutions and less numerous obstacles in the commercial exploitation of innovations are essential for ensuring growth. We need more innovating enterprises and a framework that supports growth and facilitates the successful transfer of innovations to the market"[12].

[10] European Commission, Innovation performance: EU Member States, International Competitors and European Regions compared, Brussels, 2014.

[11] Idem.

[12] European Commission, *Press conference on the 2014 Innovation Union Scoreboard and the Regional Innovation Scoreboard reports*, Brussels, 2014 (my translation); original text: „Generalizarea inovării la întreaga Europă rămâne o prioritate, dacă se dorește atingerea obiectivului nostru de politică industrială ca, până în 2020, cel puțin 20% din PIB-ul UE să fie generat de industria producătoare. Mai multe investiții ale întreprinderilor, o cerere mai puternică de soluții inovatoare europene și mai puține obstacole în calea exploatării comerciale a inovațiilor sunt esențiale pentru creștere. Avem nevoie de mai multe întreprinderi inovatoare și de un cadru favorabil creșterii pentru a asigura tranziția cu succes a inovațiilor înspre piață."

Similarly, Máire Geoghegan-Quinn, the Commissioner for research, innovation and science, declared: “The dashboard confirms once more that investments in research and development enhance economic performance. With a budget of about 80 billion EURO for the next 7 years, the new research and innovation Program, Horizon 2020, is going to help us maintain this dynamic. It is necessary for us to increase the innovation investments in the entire European Union so that, by 2020, innovations will have amounted to a 3% level of the GDP[13].”

5. Conclusions

Innovation was one of the most debated topics at the 6th edition of the World Science Forum, held at Rio de Janeiro from 24th -27th November 2013. The “Declaration of the World Science Forum” contains five recommendations, of which two refer to the innovation activities: training for reducing inequality and promoting sustainable world science and innovation; ethical and responsible behaviour in research and innovation.

One of the seven initiatives comprised by the Europe 2020 Strategy is the Initiative: “A Union of Innovation”. The objective of this initiative is political orientation in the sphere of research - development and innovation towards the challenges of the contemporary society, such as climate changes, energy and the efficient use of resources, health and demographic changes.

In the area of innovation, the hierarchy of the EU states is relatively stable, with Sweden as a leader, followed by Denmark, Germany and Finland, these four countries allotting the highest funds for research and innovation. Portugal, Estonia and Latvia have recently recorded the most significant progresses in the area of research and innovation, while Poland is the only country that has turned from a “modest innovator” into a “moderate innovator”. Romania belongs to the group of “modest innovators”, occupying the 26th of the 28 positions, represented by the total number of EU states.

At global level, the EU is surpassed by South Korea, USA and Japan, but it has superior performances in the area of innovation in comparison with Australia and Canada. Similarly, the EU has made an important step ahead the countries from the BRICS group, which includes: Brazil, Russia, India, China and South Africa. China is an exception for it makes fast progress in the area of innovation and it catches up with the gap it currently has in comparison with the EU.

In order to reach a performance level in the area of innovation that is close to the level reached by the world leaders in this area, the EU must further make efforts as regards: cooperation between member states in the domains of education, culture, enterprises and employability, developing the entrepreneurial spirit of the young people, encouraging the innovating behaviour within public and private organizations.

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[3] European Commission, *Europe 2020*, Brussels: 2010.

[4] European Commission, Innovation performance: EU Member States, International Competitors and European Regions compared, Brussels: 2014.

[5] European Commission, Press conference on the 2014 Innovation Union Scoreboard and the Regional Innovation Scoreboard reports, Brussels: 2014.

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[13] Idem; original text: „Tabloul de bord confirmă, încă o dată, că investițiile în cercetare și dezvoltare aduc beneficii în ceea ce privește performanța economică. Cu un buget de aproape 80 de miliarde de euro pentru următorii șapte ani, noul program de cercetare și inovare Orizont 2020 ne va ajuta să menținem această dinamică. Este nevoie să creștem acum investițiile în inovare în întreaga Uniune Europeană, pentru ca, până în anul 2020, să ne atingem obiectivul de 3% din PIB.”

[6] Iancu, A., *Cunoaştere şi Inovare. O abordare economică*, Bucharest: the Romanian Academy Publishing House, 2006.

[7] World Science Forum, *Knowledge and Future*, Budapest: 5-7 November 2009.

[8] World Science Forum, *Science for Global Sustainable Development*, Rio de Janeiro: 24-27 November 2013.

[9] www.europeancommission.com

[10] www.infoeuropa.ro

New Business Models, The Restructure Of Competition And Implications On Business Management And Trade Statistics

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Abstract: - Economists and managers should be aware today of the fact that some concepts and economic mechanisms need to be reconsidered in the context of the new aspects of globalization. The appearance of new types of business and new trade patterns on the international stage has led to the restructure of worldwide competition. "Traditional" competition between companies is replaced, in the context of the "globally integrated businesses" and the new division of labour based on the "functional" specialization, by new types of competition. This has a few implications on business management and on foreign trade statistics and analysis as well.

Key-Words: - competition, "functional" specialization, "globally integrated business", business management, foreign trade statistics.

1. Introduction

There are a lot of factors that contributed to the appearance of new types of business and new trade patterns on the international stage. We can structure them in the following three categories:

1. The Western factor – the implementation by Western companies of new strategies and business models.

We are referring to the "globally integrated businesses" which are stimulated by:

- the competitive advantages offered by the concentration of resources on a specific field of expertise or functions that enhance positioning on the market;
- the technical opportunities and economic efficiency enhancement resulting from the relocation of activities, and first of all of manufacturing, through offshoring and international outsourcing.

"The globally integrated companies" reflect the integration in a certain formula of the components of the "product" value chain and the distribution of their fulfilment in at least two countries. Integration also implies, on an ever larger scale, the functional inter-dependence of at least 2 independent companies which realize in conjunction the "product" global value chain, and through this symbiosis generate a "globally integrated business".

Under the category of "globally integrated companies" we have to define two types of companies:

a) **"the functions outsourcers",** which can be:

- big companies (national companies, multinational companies-MNC, transnational companies-TNC), which undergo a process of vertical disintegration, by retaining the basic function(s) (in which their competencies are maximal) and the distribution of other functions to third parties (outsourcing to functions integrators selected through the arbitrage of their competencies and advantages)
- new companies that design and structure from scratch a "globally integrated business" by assigning functions to "integrated" participants.

b. **"the functions integrators"**, which can be:

- companies that directly perform the contractually undertaken function(s) (design, R@D, manufacturing, assembly, distribution, marketing, post-sales analyses or a combination of these)
- companies that build and use (orchestrate) supplier networks. This kind of integrator becomes in its turn a functions outsourcer, while the network itself becomes a "globally integrated business".

2. The emergent factor – the governmental policies and private initiatives of some emerging countries. These have facilitated:

- the foreign direct investments
- the set up and growth of a number of national companies meant to become partners to Western TNCs within the frame of certain "globally integrated businesses"
- building of national, regional or even international chains or networks
- the extension of functions within the global value chains, ready to be undertaken by emerging companies, from manufacturing to logistics, R@D and other business services.

3. The conjunction and evolution of the above mentioned factors – which created a new economic reality.

This new reality can be characterized by:

- the reshape of international inter-dependences between companies, countries and regions
- the reshape of trade and investments flows
- the review of the meaning of a country specialization, which is no longer based on the overall balance of comparative advantage of countries in producing a final good, but on the comparative advantage of producing components of final goods (the intra-product specialization) or on the comparative advantage of fulfilling certain tasks/functions along the global value chain of a product (the functional specialization).

The appearance of new types of business and new trade patterns on the international stage has led to the restructure of worldwide competition. This has a few implications on business management and on foreign trade statistics and analysis as well and we will that for make some remarks on these issues.

2. The restructure of competition

"Traditional" competition between companies is replaced, in the context of the "globally integrated businesses", by new types of competition specific to the new types of structures and new management concepts, which are currently consolidated under the new division of labor.

1. **Competition between "comprehensive" companies** (with all "functions" of the value chain in their courtyard) **is replaced by a competition localized at the level of a certain function or a set of functions retained in a company's portfolio.**

When the manufacturing is outsourced by several companies to the same contract manufacturer, it is obvious that differences in competitiveness will result from other functions held within the company (research, design, logistics, marketing, etc.). Competition moves to the level of the "functions of excellence" retained inside the company, while competition in the outsourced functions becomes residual and results from the advantages that the competing providers of functions can bring (when not resorting to the same provider).

2. "Competition is no longer limited to company against company, but rather to supply chain against supply chain. Partners in the chain are the same team members who are trying to optimize value. If a chain eliminates another chain, all the members of the defeated chain fail. The better the chain members cooperate with each other, the more competitive they will be against rivals. This is a different vision of partnership and a broader vision on the company itself.

This idea changes the way the supply chain members interact with each other. In traditional supply chain (or other "value chains" that deliver products or services), suppliers were trying to extract the best prices from buyers. Buyers sought concessions from suppliers. Each player optimized a part of the supply chain, the overall efficiency of the chain being usually sacrificed for the optimization of the results of a single strong player.

But the success of a modern supply chain depends not just on efficiency, and an antagonistic relationship can damage a lot. Antagonistic relationships diminish suppliers creativity, reduce flexibility and weaken the chain in many ways. As flexibility is becoming increasingly important, the cost of such lack of coordination becomes increasingly higher. Collaboration, on the other hand, can improve supply chain as a whole"[1].

Synthesizing the above, we could say that **in relational terms**, the supply chain may be:

a) a **classic** one, based on antagonistic relationships between its components, namely between firms in a position of seller or buyer, each trying, in their bilateral relations, to maximize profits through negotiated prices. Thus, some links are strengthened and others are weakened. The latter will later endanger the whole supply chain.

b) a **modern** one, based on relations of cooperation between its components, collaboration that aims to overall chain efficiency and results in a stronger position

in competition with other supply chains.

On the other hand, it is useful to look at supply chain **in structural terms**, namely:

a) **static** supply chains, based on a fixed number of components, mostly invariant over long periods of time in respect of the supplying companies identity.

b) **dynamic** supply chains, based on networks that can reshape, whenever necessary, a certain supply chain, in order to optimize its overall responsiveness (an extension of the classical concept of efficiency), increasing chain flexibility and stimulating suppliers creativity.

In this point of the analysis, we can conclude that **the dynamic supply chains of collaborative nature are better positioned in the competition fight.**

The supply networks that generate these supply chains are also competing each other and the outcome of this competition will translate into a greater number of prestigious Western companies that will contract that network to carry out the supply chains specific functions.

3. A new type of competition is observed also between the networks of suppliers. This competition is more complex than the competition **between supply chains** and even more complicated when some members are part of several networks that may be competing themselves. In such cases, when a network intends to give a strong blow to another network competing in the same branch, it is very likely that it will be itself affected by this maneuver.

"Competition between networks means that a company that has access to the best networks will surpass rivals today, but will be able to overcome their rivals in the future as well. Such companies can create superior supply chains now, but can also project new supply chains based on the existing networks. Thus, companies have many more options to meet customer needs. **The best networks give rise to the best supply chains"**[2].

3. Implications on business models and management

1. Another level of the analysis of the business structures engaged today in the field of the global competition, could be that of the **comparison between the matrix structures** (from the functional point of view) **of TNCs** (with their branches system) **and the matrix structures of the supply networks**.

Certainly there are matrix response skills to market demands in both structures, but it seems that **networks have competitive advantages over TNCs,** at least in the field of the manufacturing function.

These advantages result, among others, from the following reasons:

- The geographical and functional structure of a TNC is more rigid than that of the supply chain. It is fastened by its original structure, built on the strategies of market adaptation or the aggregation of similar market demands. This structure largely cancels from the start the permissiveness of a rapid implementation of a new production matrix. In a supply network such as that orchestrated by Li Fung, consisting of over 12,000 suppliers located in over 40 countries, the formulation and implementation of a new production matrix is possible immediately and with reduced operational costs.
- The ownership structure of a TNC is more rigid than that of the supply chain. While the flexibility of the first is increased through green-field investments or mergers and acquisitions, the second enjoys an incomparable flexibility both in the development stage of the existing structure, based on the adherence to

[1] *Victor K.Fung, William K.Fung, Yoram (Jerry) Wind: Concurenta intr-o lume plata: cum sa construim o companie intr-o lume fara granite, Ed.Publica, 2009.*
[2] *Victor K.Fung, William K.Fung, Yoram (Jerry) Wind: Concurenta intr-o lume plata: cum sa construim o companie intr-o lume fara granite, Ed.Publica, 2009.*

the network that can leave aside ownership involvement, as well as in the functional stage, when, for a similar result, a number of operational combinations (matrix) can be made readily available.

- The strategy of the arbitrage of factors that finally define the manufacturing efficiency reach its optimum in the network because, in comparison with many TNCs, it can put together at any moment, from "n" possible variants, the matrix that optimizes coordinates like: assigned functions, costs, location, speed of execution, etc.). In this context, the arbitrage strategy applied inside its own structure of a TNC is expected to turn more extensively into a strategy arbitrage in respect of choosing the right supply network. Partnering with a supply network equates in the same time with the outsourcing of the arbitrage strategy regarding manufacturing (lately accompanied by activities of design, marketing and logistics) from a TNC to the selected supply chain. In this context we will probably witness the emergence of a new concept, that of the "outsourcing of the arbitrage strategy" from under the roof of some TNCs to some supply networks (which turned themselves also into "globally integrated businesses").

2. The organic growth model, based on the ownership of assets, is no longer, as in the classical economic theory, the only model of enhancing the economic strength of a company.

Within the functional specialization, following the segmentation of the global value chain, a number of TNCs have outsourced the "function" of manufacturing, keeping higher value-added functions in which they focused their highest skills, that set them apart from competitors (such as research and development, planning and design, innovative marketing and distribution strategies).

The outsourcing of the manufacturing function to contract manufacturers discharged those companies of the need of managing some high-value assets that are no longer to be found in their heritage. The resources thus made available were assigned to other functions, functions that have generated a more notable increase of the company value.

If in the past, the vertical structure and the organic growth have paved the way towards profitability and reputation, now the de-verticalized structures prove to be more profitable.

The fact that the property model can be successfully overcome is shown, perhaps the most eloquent, by the integrators of functions who have specialized in orchestrating vast networks of suppliers. Although their contractual commitment is to supply manufactured products, it is possible that such integrators report turnover of billions of dollars while owning no production facility.

These networks consist of thousands of suppliers, some of which exceed the known concept of a supplier and provide even complex and distinct functions like the fabrication of product modules, assembly, logistics, retailer activities, etc..

The construction of this network is vertical, but not in a single company's courtyard. This democratic structure consisting of "n" independent owners is made functional and effective not by property relationships (belonging to one company), but by a new type of management, innovated and perfected over the last 10-15 years by some visionary companies which early seized the new opportunities offered by the "functional" specialization and the availability of some brand companies, mainly American, to apply to the international outsourcing (offshoring) of manufacturing and services.

3. The expanding and deepening of the interdependence relationships between independent companies, based on the "functional" dependability between them.

This kind of dependency between the seller and the integrator of functions, pave the way merely to relationships of cooperation and to a balance of power between partners. The "functional" interdependence has already come to overshadow, through its potential, the older structures such as strategic alliances. It is also a challenge for managers of many companies that face difficulties in assimilating the new conceptual principles of networked businesses.

The symbiotic relationship between partners emerges from the fact that the seller of the production function knows and represents the market of demand, while the integrator of that function knows, organize and represent the market of the supply of production factors.

4. In the context of the "globally integrated businesses", the pricing strategies will be shaped differently.

It is expected that traditional means of competitive struggle between transnational companies, including the central role of pricing strategies and the use of transfer price mechanism, to be reconsidered, especially in connection with the new matrix of the "globally integrated businesses" in which, for example, the mechanism of transfer prices is no longer operative and competitive advantages are distributed and focused on "functions".

5. The restructure of competition in businesses involving functional specialization has implications for the overall competition. Analysis of changes in the competitive environment should be separated by areas, due to the particularities of the new business structures and their symbiosis with the classical ones.

In the past 20 years we can observe an almost exponential growth of the contract manufacturing, in all its forms (original technology manufacturers, original design manufacturers, global suppliers) and almost in all industrial fields. However it may be noted that in the light industry the strategic options of functions integrators were more varied than in other areas (a comparison should be made first of all with the electronics industry), because in terms of assets and functions, they could engage in more diverse forms of structuring the business (supply chains, supply networks).

There are still plenty of examples of running a successful business in property-based systems, as in the case of vertically integrated companies, and in the light industry the vertical pattern is often fulfilled, out of conjuncture or competitive reasons, by lohn contracting.

A parallel between a model of structuring a business including a supply network and a model that includes a network of manufacturers in a lohn system would certainly lead to the idea that the first is more competitive than the classical one. The main reason lies in the "offshoring" of the management of the manufacturing function from the outsourcing company to the company that manages the supply network, leading to an increased focus of the outsourcing company on the management of the relationship with the market, leading finally to the optimization of the flow from the study of demand to the suitability of supply.

The transition to the network model also implies a shift from the "supply chain management", which focuses on optimizing a fixed and relatively limited set of assets, to the "orchestrating or management of a network", which focuses on optimizing the response to customer needs, using the assets of a vast network of partners. Innovations in the field of network management define in fact another type of management, the dynamic management of probable structures.

The "decoupling" of the supply chain management from the management of markets, at the level of some independent companies, will generate not only a tendency to maximize the specific managerial skills, but also a competition which is not this time located at the level of vertically structured companies, but at the level of those couples formed by the outsourcing company and the company managing the supply network.

4. Implications on foreign trade statistics and analysis

Trade in **intermediate goods** now dominates world trade in non-fuel merchandise. The growing international flows in intermediate goods reflect the evolution of intra-industry trade, the impact of offshoring and the prominent role of networks of multinational enterprises (MNEs) in world trade.

While Europe is still the biggest trader in intermediate goods, Asia has been rapidly closing the gap, and is now a close second.

While intermediate goods constitute more than 60 per cent of Asia's total imports, Asia tends to export more final goods composed of the imported intermediate ones. This regional characteristic, inherent in the region's role as "Factory Asia", is not equally displayed by each country. Some economies, like China, India and Viet Nam, have distinctly higher shares of intermediate goods in their imports than in their exports, while the opposite is true for the Republic of Korea, Japan and Chinese Taipei. Not only has trade in intermediate goods increased, but these goods are also increasingly complex.

The evolution of regional production networks has created a distinctive structure for the Asian-US production system, understood as the **"tri-polar trade through China"** model. In this structure:

1. East Asian countries, except China, produce sophisticated parts and components and export them to China,

2. China assembles them into final products,

3. final products are further exported to the US market for consumption.

Regarding the implications of the appearance of new types of business and new trade patterns, we should point to the following:

1. **The reshaping of the methodology of foreign trade statistics** in a way that, based on the trade flows of intermediate goods, it could reveal:

- the domestic content embedded in exports and the import content of exports
- the country specialization
- the effects on the foreign balances of payments

The decomposition of exports value into its foreign and domestic content can be done through measuring the value added of exported goods (or in other words, measuring the international trade flows of parts of the entire value added embedded in that specific final good exported). This methodological approach, the "trade in value added" approach, has been recently initiated by WTO and implies the use of the following tools:

- the international trade statistics and
- international input-output (II-O) tables (such as those developed by IDE-JETRO).

As the WTO and IDE-JETRO study points out, the global production chains have blurred the relevance of some conventional trade indicators, like bilateral trade balances, when products are "made in the world" rather than in a single country. Vertical trade is one of the new elements of international exchanges that require the application of innovative metrics.

Attributing the entire commercial value of an exported good to the last link of the chain – the economy exporting the final good – can lead to a statistical bias and to misunderstandings, which may alter trade analysis and have potential implications for trade policy and multilateral trade negotiations.

2. The re-evaluation of some technical issues of trade policies at the level of countries or customs unions, as:

- the reevaluation of the concept of "country of origin"
- the reevaluation of the importance of certain emerging economies as "countries of origin".

The new methodology developed by WTO-JETRO offers a new perspective for trade analysts, as it dramatically re-evaluates the importance of some economies as "countries of origin". The result is that the absolute value of some bilateral trade imbalances is reduced, notably that of China and the United States, while overall global balances remain untouched.

This can be illustrated with the common example of the US trade deficit vis-à-vis China. The deficit, as currently measured between the two countries, is clearly overstated, as it does not originate only in China, but also in economic partners belonging to the same production chains. By subtracting the estimated import content from conventional trade values, the value added approach enables bilateral transactions to be adjusted in line with the actual values created in the two countries.

The 2005 US-China trade shortfall would have even been cut by more than half, from US$ 218 to US$ 101 billion, if it had been estimated in value added and adjusted for processing trade. Similarly, in 2008, the US$ 285 billion bilateral deficit would have been reduced by more than 40 per cent. The difference must be attributed to the value added from other economies, such as Japan, the Republic of Korea, Malaysia, etc., embedded in Chinese exports to the United States.

3. The re-evaluation of the political speech of some Western countries towards certain emerging countries with whom they encounter increasing trade deficits.

In this respect, the negative impact on the foreign balance of payments of the Western country should be re-evaluated, as the specialists from JETRO suggest, with the foreign value added embedded in the exports of the respective emerging country, or with the value of intermediate goods imported and embedded in the final goods exported.

More than that, in our opinion, the negative impact on the foreign deficit should be re-evaluated also with the value of exports resulted from the participation of companies from emerging countries to the "globally integrated businesses" with Western partners who outsourced them functions like manufacturing, logistics or mixes of functions.

In this case, regardless of whether the entire value added comes from a single country or is a sum of value added in several countries, the export originated within a "globally integrated businesses" should be perceived like an even more "positive" component than other bilateral trade flows because it is even stronger linked to the competitiveness and market position of an increasing number of important Western companies.

The WTO-JETRO methodology does not separate the trade flows induced by the "globally integrated businesses", so that an emphasis on the "sine qua non" feature of these trade flows cannot be statistically backed-up.

5. Conclusions

Regarding the implications of the appearance of new types of business and new trade patterns, we have to stress on the utility of the reshaping of the methodology of foreign trade statistics, in a way that, based on the trade flows of intermediate goods, to reveal the domestic content embedded in exports and the import content of exports, and to re-evaluate the political speech of some Western countries towards certain emerging countries with whom they encounter increasing trade deficits.

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The Dilemma Of Demand Side Policies Versus Supply Side Policies For Relaunching Capitalist Economies

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Abstract: - The first important economic recession in this century started in USA with the burst of real estate bubble followed by the bankruptcy of some investment and commercial banks and the collapse of capital market. The financial-banking crisis spilt over the world economy and caused the second deepest economic recession in the last 80 years. The financial crisis has badly affected almost all market economies and was the result of a combination between market failures and mistakes made in macroeconomic policies. In the financial sector there was not enough regulation and supervision of corporate governance while in goods industry the pressure of over-regulation led to higher factor costs and supply contraction. The direct result of supply side policies and particularly of monetarist instruments is seen now clearly in the USA: large deficits, huge debts, reduced savings, heavy dependence on foreign money (capital) and resources, relatively low domestic output and supply.

Key Words: - interventionism, fundamentalism, financial innovations, corporate governance, demand side, supply side

JEL Classification: - E12, E32, E42, E44, E52,E58, E62, E63, G01, G21, G24, G28, G52

1. Introduction-Financial crisis hit badly the world economy

The financial banking crisis has badly affected USA and EU, but Romania only to a small and limited extent. Only at Bucharest stock exchange, stock prices and indexes collapsed mainly under the influence of what happened in USA and Western Europe capital markets. The commercial banks performed quite well due to a restrictive monetary policy promoted by National Bank of Romania and due to the very high profits recorded during the last decade. But the financial crisis had badly affected world economy on the whole and provoked the second deepest economic recession in modern period, after 1929-1933 economic depression.

There are some important differences between these two economic recessions. Very few commercial banks have got bankrupt in the last years in the developed countries due to the strong financial support (bailouts) offered by the central governments and the central banks and due to the absence of any panic behavior on behalf of deponents. Stock prices have strongly declined and the liquidity crisis became obvious in the financial markets. Due to Keynes' contribution we have now the instruments of macroeconomic policy in order to influence economic cycle and counteract the effects of economic recession. But one question arises: is the financial crisis the result of market failures or the result of mistakes made by policy makers? I think we have a combination between market failures and mistakes made in macroeconomic policies. Anyhow, targeting the inflation, at the expense of financial stability, proved to be a great mistake of monetary policy because the financial crisis has shown that there is no self-correcting capital market and no model for effective financial markets.

While the Keynes disciples claim that there was not enough market regulation and supervision, the neoliberals believe there was too much interventionism which distorted the market mechanism. We may see a fierce confrontation between the advocates of market interventionism (market regulation) and the advocates of market fundamentalism (market deregulation), but also between demand-siders and supply-siders in finding the best policies for economic growth.

2. USA between supply side and demand side policies

Before the financial crisis, in 2006, it was Robert Freeman who undertook a brilliant analysis of the major deficiencies of supply side economics implemented in USA. Between 1973 and 1983, due to oil shocks and other factors increase, inflation soared, interest rates skyrocketed and economy took a downward trend. Higher prices cut the corporate profits and also the the purchasing power of people leading to so-called *stagflation* (a stagnant economy with high inflation). But sharp inflation and high unemployment can not be addressed simultaneously by monetary and budgetary measures.

Supply-siders, as Robert Mundell, were convinced if the government cuts income taxes on the wealthy people the savings would go to productive investments and more goods and services with lower costs will calm the inflation, cut the unemployment, raise the budget revenues and so the economy will enter a virtuous circle of tax cuts, investment, productivity and employment increase, and rising tax revenues. After 1980 elections Reagan Administration cut the marginal tax rate on the highest income earners from 75% to 38% and the results were bad: the budget deficit exploded to $208 billion in 1983 from $77 billion during Carter Administration and the public debt increased from less than $1 trillion in 1980 to $4.35 trillion by the end of 1992. Due to the fact that tax cuts were not tied to productive investments it was difficult to link them to any economic boom but only to some negative aspects: rich people became richer, budget revenues were lower and public debt increased tremendously.

Clinton Administration reversed Reagan's supply side policies by applying demand side policies focused on cutting the taxes on low-income people with the aim to fuel a boom in consumer spending and thus to support the economic growth. The results were mirrored by 22 million new jobs, the fall of unemployment to the lowest level in over 30 years, reduction of inflation rate to 2.5% per year compared to an average rate of 4.7% in the previous 12 years, an average rate of economic growth of 4.0% per year compared to an average growth rate of 2.8% during the 12 years of the Reagan/Bush Administrations. When Clinton left the office, the budget surplus attained $140 billion per year.

George W. Bush Administration returned to supply side policies and lowered income taxes on the very rich people by giving $1.6 trillion tax cuts of which 45% to the top 1% of the population. GDP has increased in average by 2.8% since 2001, employment by 1.3%, investments by 3.6%, but a $136 billion surplus of Clinton Administration turned into a $158 billion deficit in 2001 while the national debt (gross debt undeflated) increased from $5.8 trillion in 2000 to $8.5 trillion in 2006 and then to more than $10 trillion by 2008 and in 2013 it reached $16.7 trillion (more than 100% of GDP) and in 2014 $17.63 trillion. For Robert Freeman it is obvious that supply side policies implemented by the Republican party over 20 years had the only beneficiaries the very rich people (1% of the population) who became richer and richer and could afford to finance a large part of public debt. The Clinton Administration reduced the deficits and debts and lowered interest rates representing the basis for rich people high earnings while Obama Administration was not able to repeat the same performances due to the impact of financial and economic crisis. In Robert Freeman's opinion „*demand side economics, although not being perfect, produces robust growth, budgetary surpluses, and broad based prosperity while supply side economics produces middling growth, soaring deficits, and broad based debt".*

3. Demand side policies

It was the British economist John Maynard Keynes (1883-1946) who founded a new school of economic thought after the Great Depression from 1929-1933, that of demand side policies, based on the role played by the aggregate demand created by the households, businesses, governments as the main driving force in the capitalist economy. Keynes' doctrine changed the emphasis in the study of economics from microeconomic level (behavior of individuals and firms) to the study of macroeconomic level (behavior of the economy as a whole) and introduced the government intervention in the economy through public policies aiming at achieving full employment and price stability. Keynes viewed the emergence of a depression due to factors like relationship between spending and earning (aggregate demand), savings and unemployment and thought that it was necessary to cut the taxes and increase other spendings with spillover effects during an economic downturn and also to increase the tax on revenues during an economic upturn. That is why Keynes is considered the father of macroeconomic policies.Usually demand side growth is accompanied by an increase in prices (inflation growth) which in its turn impedes economic growth. Demand side policies inspired by Keynes ideas were used as the standard economic model implemented in Western Europe after the Second World War in order to establish so-called welfare state. Due to stagflation process Keynesian economics lost its influence in favor of liberal ideas promoted by Chicago monetarist school which seemed more appropriate under the circumstances of globalization and regional integration. Some schools of economic thought inspired by Keynes ideas are: Neo-Keynesian economics (John Hicks, Franco Modigliani, Paul Samuelson), New Keynesian economics (Gregory Mankiw and David Romer) and Post-Keynesian economics (Joan Robinson, Paul Davidson, Michał Kalecki, Nicholas Kaldor, Piero Sraffa, Hyman Minsky).

A concept introduced by Keynes-*liquidity trap*- is frequently used by his followers, like Krugman and Stiglitz, to explain why developed countries affected by the crisis cannot resume a robust and rapid economic growth. Low consumer demand due to high debts, huge income losses and increasing propensity to save attracts the lack of trust on behalf of investors and producers and also an inevitable decline of credit demand (productive, mortgage and consumer credit). Under these circumstances central banks strive in vain through various ways, especially through massive loans given to the commercial banks, to increase market liquidity. Despite very low interest rates that are close to zero both in USA and EU monetary policy is not able to affect notably the economy only through its effect on interest rates.An alternative to the reduction of short-term interest rates is the promotion of an expansive monetary policy through *quantitative easing* started by Bank of Japan in 2001 and proved to be a resounding failure.

4. Supply side policies for supporting economic growth

One may draw an important conclusion based on the American financial crisis and its effects on US and global economy. Who we may blame on ? Here is a dilemma worthy of serious analysis. Are demand side policies, mainly inspired by Keynesian school of economics, aiming at stimulating consumer demand, by means of monetary and fiscal policies, associated with (financial) markets liberalization and deregulation or supply side policies, inspired by Robert Mundell and other economists, also associated with (financial) markets liberalization and deregulation, that led to great deficits and to a deindustrialization process in USA? While the followers of Keynes like Paul Krugman and Joseph Stiglitz insist on demand side measures, other economists, like neoliberals (monetarists), support supply side measures, that may be used in order to stimulate economic growth by using different incentives for producing or supplying goods and services. Such incentives could be the adjusted income tax and the capital gains tax rates. Low or zero taxation of capital gains is often attributed to believers of supply side economics. Robert Mundell, Arthur Laffer and Robert Lucas jr. are the most known economists supporting supply side policies. In the 90's even Robert Lucas jr. thought that "neither capital gains nor any of the income from capital should be taxed at all" and estimated that eliminating capital income taxation would increase the U.S. capital stock by about 35 percent (Lucas, 1993).

Reagan Administration tried to apply this kind of policies, taken into account Laffer curve effect, but cutting the tax rates led to high budget deficits. Another important leader attracted by supply side economics was Margaret Thatcher who implemented with good results such policies in Great Britain in the'80s. More recently it was the French President, Nicolas Sarkozy, who may be considered a supply sider as he adopted a pro-active stance in industrial policy and tried to stimulate domestic car production by injecting 6 billion euro (a five year loan with low interest) in French car producers: Renault and Citroen-Peugeot. Obama Administration plannned to cut taxes (300 billion $) with the view to create 3 million jobs and to stimulate the demand. But the result was a worsening of the budget deficit and the increase of public debt. Inspired by the model of European Investment Bank, Barack Obama intended to establish a similar bank in USA with a capital around 60 billion $, meant to finance infrastructure projects (also in health care field) and housings.

Authors, like David Harper, support the idea of supply-side economics which try to offer policy prescriptions for stable economic growth, supply-side theory having three pillars: tax policy, regulatory policy and monetary policy (Harper, 2009). Lower rates of income tax would encourage work and stimulate output while lower capital-gains tax rates would increase productivity and stimulate investments. As regards regulatory policy, supply-siders are allied with traditional political conservatives, both preferring less government intervention in the free market. For supply-siders, monetary policy is only a macroeconomic variable and a stable monetary policy is desirable being based on a small increase of money supply and low inflation rate. Some advocate even for a return to gold standard or for pegging the dollar to gold which would reduce currency fluctuations and provide more predictibility to exchange rate evolution. If we take into account what David Harper says, one may consider supply-siders more liberal and less interventionist than demand-siders, like neokeynesians. However, stimulating domestic production or supply implies some policies and measures which are interventionist by nature and in contradiction with free market principles.

But the appeal to macroeconomic instruments represents only a limited or narrow approach of supply side policies, microeconomic and sectoral policies are needed for getting good results. While adjusting income tax may prove ineffective other measures addressed to microeconomic level may give good results in stimulating domestic supply. Among them one could mention profit tax cuts related to direct (re)investments, credit facilities for investors creating jobs and producing goods, credit guarantees for SME's, state aid for innovation and research activities, support for labor reconversion and vocational training. Cutting taxes without cutting budget expenditures in certain fields may involve printing money and pouring it into bankrupt industries, banks and insurance companies under the pressure of interest groups and lobbyists. Big banks and companies are saved usually with public money, because they are very influent and considered to be strategic actors within the economy, but this policy undermines the basic functioning principles of capitalist system. Big is important and useful, small is not, but this judgement has nothing to do with real democracy and basic principles of American society: meritocracy and equal chances.

Joseph Stiglitz advocated for a sustainable and inclusive economic growth, based on the most valuable resource which is people, both on the risk taking and on the active role of state (public authorities). The Government or public authorities may play a major role in providing infrastructure and education, in developing technology, and particularly during recession in acting like an entrepreneur (Stiglitz, 2008). Joseph Stiglitz praised *American new left* for trying to make markets work, especially when the country goes into recession or depression (see the Democrats plan to stimulate the economy by injecting another 787 billion $). *American right* was blamed by Joseph Stiglitz (maybe due to Bush Administration's weak performances) for its market fundamentalism, liberal approaches and policy mistakes. But, when referring to market regulation, Joseph Stiglitz was quite vague and the only detail offered refers to market supervision (competition policy). With good reason Joseph Stiglitz pointed to the need of an adequate response to the financial and economic crisis, and also to the necessity of undertaking long-run substantial reforms in financial sector and other important sectors. The aim of all these reforms is to insure a sustained, healthy and long-lasting economic growth and to provide prosperity and equity in the world. Maybe establishing banking union within EU represents one of the best solution in reforming financial sector. It seems to me that in his last book *The Price of Inequality: How Today's Divided Society Endangers Our Future* Joseph Stiglitz is more favorable to demand side policies than to supply side policies as he puts a large emphasis on combating great income inequality which badly affects aggregate demand, especially its main component- consumer demand, and only a reformed progressive tax would be able to stimulate the consumer demand. Supply side (state) policies, as those for restructuring the financial sector and in other fields, are not excluded, but they appear in the background with less importance or visibility.

In 2000 the European Union launched Lisbon Strategy(Agenda) which in my opinion is a good example of supply side approach based on sectoral policies. The aim was to transform the European economy in the most competitive and innovative economy in the world. Liberalization policies, aiming at completion of internal market, building of network industries, integration of financial services were applied together with specific policies targeting entrepreneurship promotion, diminishing of unemployment, innovation and technological progress, sustainable development and environmental protection, infrastructure development. Lisbon Strategy was supported by other strategies, action plans, programs and also by Growth and Stability Pact, which was seen as a guidance framework for sound macroeconomic policies of Member States. Competition policy or careful market supervision was seen as an essential instrument in counteracting inflation pressures, promoting competitive market actors and protecting consumer interests. In March 2010 Lisbon Strategy was replaced by Europe 2020, another supply side agenda, aiming at a smart, sustainable, inclusive growth and focusing on education and inovation, renewable energies, a new industrial policy, modernising labour markets, promoting social and territorial cohesion. In Sweden's opinion Lisbon Strategy was a failure and Europe 2020 has no fundamentally different approach which may raise the prospect of a similar result.

5. USA have been seriously hit by the financial crisis

During the recent financial crisis, at a time when Ben Bernanke, the Chairman of the Federal Reserve, thought that only monetary policy may save American economy, Joseph Stiglitz saw the triumphant return of

John Maynard Keynes.This because markets are not self-correcting, regulation is needed and government must play an important role in economy (Stiglitz, 2008). For Joseph Stiglitz both the market fundamentalism in financial sector and the misguided policies of Clinton Administration may be blamed for the financial crisis. Was Keynes right when he thought that monetary policy is ineffective during a severe recession and tax cuts are needed in order to stimulate the demand? Tax cuts proved to be ineffective in Japan in the 90's and may prove also in USA, where the level of public deficit exceeded $1000 billion per year in 2009-2012 period(gross public debt has already exceeded $17.000 billion). On the other hand the increase of money supply in order to avoid the liquidity trap and provide enough credit availabilities for supporting the level of economic activity did not fuel the inflation rate, as the adepts of Austrian school of economics claimed repeatedly, although it was accompanied by a currency devaluation.

As the 1929-1933 crisis revealed, the contraction of money supply is not good. But will the opposite action, i.e.increasing of money supply, stimulate the economic activity? For Joseph Stiglitz it is essential to preserve financial institutions and maintain the credit flow in order to avoid a severe economic downturn and to repet the mistakes made during the Great Depression from 1929-1933. As Milton Friedman (2002) and Friedrich von Hayek (1974), who are the promoters of laissez-faire in Paul Samuelson's opinion, pointed out, the crisis which started in 1929 had been much extended and deepened by the mistakes made by the Hoover Administration in fiscal and monetary policies. We must learn from those mistakes, but the financial and economic circumstances are not the same and the economic environment has changed to a large extent, so applying the solutions offered by Austrian economic school for healing the economy of recession like austerity at any cost, self-regulating of economy, elimination of government interventions, giving up of fractionary reserves and reliance only on real money (gold standard) seems completely unrealistic and even non-sense. The financial system has recorded important changes and not all of them are for good. It was Joseph Schumpeter that pointed to the positive role of innovation and entrepreneurship for economic development, but too much innovation and entrepreneurship in the financial sector led to the disastrous financial crisis. Big banks involved not only in lending money but also in buying and selling very risky assets and products. Profit at any price, without carefully assessing market risk and creditworthiness, led to the banking crisis. The quality of corporate governance (greed and incompetence) is also to be blamed for what has happened in the financial market.

But I cannot fully agree with Joseph Stiglitz when he blames the neoliberal approach relying on capital market deregulation and liberalization which led to risky financial products and speculations. After the World War II, free movement of capital brought an important contribution to economic growth and social prosperity in the world. It is a fundamental freedom for building the internal market of EU and it was based on important regulations proposed by European Commission and adopted by EU Council and European Parliament. Even in USA federal regulation that shrank for a brief period in the late 90s increased during the Bush Administration.This kind of regulation at macro-economic level is necessary, although the costs are sometimes quite high, but it is not enough. As Paul Samuelson said" markets cannot regulate themselves, either micro-economically or macro-economically". The financial crisis from 2008/2009 was the result of weak and ineffective regulation and supervision at microeconomic level which favoured risky activities and speculations, lack of accountability and stepping up of income inequalities. Especially in the financial sector, which deals with public money, the regulation and supervision of corporate governance performances had been very disappointing and this had a negative impact on the whole economy. The irresponsible and corruptive behavior at the microeconomic level explains why the US economy went into a destructive financial bubble and the Government's response to this bubble has been to increase the budget expenditures and public debt, that is to spread the damage throughout the economy. The irresponsible behavior had some roots in the guarantees offered by the Government and Federal Reserve according to which losses recorded by the banks would be at least partially covered. Alan Greenspan, president of FED between 1987 and 2006 is seen by the most scholars as the main culprit person for the emergence of the financial crisis, because, as Joseph Stiglitz had mentioned, he didn't believe in market regulation but in self-regulation of the market.

In January 2006 George Soros drew attention on stockmarkets potential crisis and its recessive impact on the US and global economy, warning over the real estate bubble inflated by lenders. George Soros had tried to apply the theory of reflexivity to the financial crisis, based on the interaction between the cognitive function and the manipulative function that are characteristic to market actors. While denying the market equilibrium postulated by the classic economic theory, George Soros has realized a two-way reflexive connection between perception and reality which may generate boom-bust processes or bubbles (Soros, 2008). The last super-bubble was created by local bubbles, in the same that it was the real estate bubble from USA, produced by credit expansion overlapped by the market fundamentalism. The super-bubble inflated due to three major factors, the first one was a long term and strong credit expansion associated with the propagation of financial innovations, the second one was the globalization of financial market favourable only to the most developed countries, the third one was the liberalization and deregulation of financial market.As concerns the solutions, George Soros appeared as a radical interventionist because he believed in a strict control of financial sector and in the involvement of monetary authorities beyond their traditional task of controlling money supply, such as in credit creation and in managing and manipulating market actors expectations.

Paul Krugman blames also the greedy free marketeers and deregulation for what happened in financial sector (Anderson, 2009). The financial services industry has won an important share of all income, making incredibly rich those people who run the industry but their real contribution to welfare is doubtful. They encouraged and supported the strong increase of consumer credit and demand for getting higher and higher profits with the help of government and FED which pumped up a lot of money in bank reserves thus stimulating lending and imports of consumer goods. At the same time the loss of manufacturing jobs in the United States was caused less by free trade and more by higher factor costs, including credit costs, some of them being caused by government and public regulation policies (Schiff, 2009). Federal, state and local authorities' strict and numerous regulations forced employers and entrepreneurs to bear high costs which there were no benefits or profits for. Under the pressure of over-regulation, American economy produced fewer and fewer goods excepting the politically connected firms that produced the goods required by regulators. The dramatic economic situation, especially the state of industry, was mirrored by 207.000 jobs lost in manufacturing sector only in December 2008 (around 3 million in the whole economy in 2008) and by an unemployment rate of 7.6% in the same year. That is why Obama Administration launched the rescue plan of 787 billion dolars at the beginning of 2009 and the president succeeded in cutting the federal deficit by almost 2/3 between 2009 and 2014 (from $1413 billion to $483 billion) because USA cannot generate sustained growth without getting the deficits under control and the year 2014 is a good example for this assertion. But a stimulus package requires more budget revenues and maybe tax increases while cutting federal deficit definitely involves tax raising which cannot stimulate economic growth in a crisis period. At the beginning the Obama plan could not reverse the downward tendency of capital market in the USA and in Europe. In February 2009 the economic crisis turned more visible in the USA where 500.000 jobs were lost and market depression became more prominent. But starting with 2010 USA recorded a growth rate of GDP around 2% per year until 2014 with a positive contribution mainly from personal consumption and exports.

Peter Schiff, among those very few who predicted the financial crisis and also the economic crisis, had repeatedly focused on financial bubble and on difficult economic situation reflected by large deficits, huge debts, reduced savings, heavy dependence on foreign money (capital) and resources, relatively low domestic output and supply. In USA it is quite obvious the huge gap between the level of domestic consumption and the level of domestic supply, which led to high deficits and debts. One may use fiscal policy (based on Keynesian theory) or monetary policy (based on monetarist view) for debt financing, or both of them, meaning that a substantial budgetary support provided by the government is joined by the central bank's changes in interest rates or money supply. But who was going to buy Treasury bonds under these difficult financial constraints? Peter Schiff noticed that at the end of 2008 "*Fed announced a strategy designed to bring down long-term interest and home mortgage rates through unlimited Treasury bond purchases. But the only way the Fed can buy bonds is by printing money, the more bonds they buy the more inflation they will create, but the inflation will diminish the market value of bonds*"(Schiff, 2009). Peter Schiff believed Fed would have to buy also the corporate, municipal and agency bonds in order to avoid the strong increase of interest rates. Let's remind that despite the criticism of government intervention by the liberal Chicago school, the monetarists still prefer central banks to strictly control the money supply. In Peter Schiff's opinion"*the Fed should pull out of the bond market before it's too late and let prices fall to where real buyers, those willing to hold to maturity, re-enter the market*". Several times, Peter Schiff drew attention on the real estate bubble which burst in the end, the federal Government being able to bail out private banks and companies, but when the bond market bubble would burst, it will be the U.S. Government itself that will be confronted with the worst nightmare. Important buyers like Central Bank of China would not be willing to continue the buying of bonds if the long-term Treasury bond yields will not rise significantly. Although public debt reached an amazing level in 2014 (about $17.6 trillion) no significant inflation was recorded after the crisis, the interest rates remained at very low level and no bond bubble appeared. However on October 2014 Federal Reserve board chairman Janet Yellen has confirmed the end of the five-year quantitative easing programme of $ 4.5 trillion, but Fed will maintain record low interest rates for a considerable time. On June 30, 2014, public debt held by the public was approximately $12.6 trillion, of which $6.0 trillion (approximately 48% of the total debt held by the public) was owned by foreign investors, with the largest parts detained by the People's Republic of China and Japan at about $1.3 trillion and $1.2 trillion. Maybe Paul Krugman (2012) is right when he thinks there is no risk in increasing the level of public debt in a time of economic growth and moderate inflation because the debt should not be paid on short or medium term but may be transferred to future generations. But what is the cost and the financial burden for the present generation and what are the risks of US huge public debt for the world economy and for country's capacity to face future shocks as Kenneth Rogoff (2013) has remarked?

Several years ago Paul Krugman made a strange suggestion to American Administration, to borrow (from abroad I guess) up to 5.000 billion $ for injecting this money in the economy, but who is willing and able to lend these enormous funds? Ben Bernanke wanted to print as much money as economy needs and this revealed the false belief that a lot of money would create a lot of income or wealth in a capitalist society, which is true but only for some bankers and speculators. The aforementioned concept – *quantitative easing*- became popular in the United Kindgom and USA at the beginning of 2009. Applying quantitative easing (the Japanese repeatedly tried this and it didn't work) signifies printing a lot of money and injecting it into economy by means of delivering money against toxic assets of banks and companies.

Quite recently when interest rates of ECB have dropped to 0.25% and deflation has eroded the chances of economic growth in the context of negative interest rates, quantitative easing has become a solution for European Central Bank, offering some effective instruments for relaunching economic growth (Marc Lanthemann, 2014). But ECB cannot repeat Fed's three rounds of quantitative easing as its powers are relatively limited, focusing on controlling the inflation rate. Although the Outright Monetary Transactions (OMT) program launched by ECB in September 2012 represents a sort of quantitative easing for buying the debts of countries with problems, like Greece, Spain, Italy. But this financial support was conditional on an agreement with European Stability Mechanism for assuming a program of economic/fiscal reform. But Bundesbank President Jens Weidmann, a member of the ECB's Governing Council, immediately challenged OMT, on the base that this program exceeded the ECB's mandate and violated the provisions of Article 123 of the Lisbon Treaty, which forbids monetary financing of Member States deficits and debts. Before OMT was ever activated, Weidmann took his case to the German Constitutional Court, that withheld a final judgment in deference to the European Court of Justice. Despite this disproof Mario Draghi, ECB president, described OMT as "*probably the most successful monetary-policy measure undertaken in recent time.*" But OMT program has created a great problem due to the fact that banks were willing to ignore the danger/risk of sovereign entities default and were ready to lend a lot of money to indebted countries.

Paul Krugman seemed to agree with Alan Greespan's idea "*to temporarily nationalize some banks in order to facilitate a swift and orderly restructuring of banking sector*" (Krugman, 2009). It was the Federal Deposit Insurance Corp. that took over the small and insolvent banks and also their bad assets, paid off some of their debts and resold them to the private investors. For the major banks the Obama Administration backed up a public-private partnership for clearing the bad or troubled asstes from the banks with the help of private investors whom the government would lend money. But Paul Krugman was even more radical and suggested the nationalization of major banks after they would pass through a "stress test"(applied this year in EU). No long term government ownership was planned as the major banks would be returned to private control on short term. Maybe Paul Krugman believed that public control or state ownership would support the restructuring process and improve the quality of management, diminish the business risks and favour the deponents and taxpayers. But the experience of transition countries demonstrates this is not true, state ownership is associated with corruption, lack of efficiency and bad management.

More or less strange, money is like water in a capitalist economy as it may evaporate overnight due to a market fall or crash. Market value of securities is like Fata Morgana in the desert, now it is beautiful and clear then it may disappear in the sands. When more than 45.000 billion $ were lost on the capital markets during the crisis one may put a legitimate question: where all this money disappeared, in the desert or in the hidden accounts from fiscal paradises? Or maybe all this money (most of it fiat money) was a fiction and not something real, though it was saved and invested by employees or by companies supplying goods or services. Please don't ask inquisitive and stressing questions to bankers, brokers or dealers regarding a very sensitive subject: what do they do with the public money, because you, an honest taxpayer, don't have this right and nobody does. For instance JP Morgan and Mellon Bank managers became extremely irritated when they were asked by a reporter from Associated Press about the destination of bailout money. But the same inquisitive questions may be addressed to the U.S. Administration and other governments: how do you calculate the level of GDP and inflation rate? What kind of methodology do you use? Too much indiscretion may reveal incredible facts for any economist and may shatter his opinions and beliefs on the accuracy of macroeconomic indicators.

6. Is Germany a state based on supply side policies?

In the 1930s when the concept of ordoliberalism was developed by the Freiburg school of economics it focused its criticism on cartels and not on state role in the economy. Economic growth and competitiveness were based on enforcing the competition which is a supply-side vision. But the role of German state in the last 150 years, since Bismarck age, was quite important in supporting Germany strong industrialization by suppressing consumption and increasing savings to provide adequate pools of capital for large-scale industrial investments (Mark Blyth, 2013). Despite two devastating wars in the first half of the 20th century, from which Germany came out defeated, it remained a powerful industrial nation and a successful export oriented economy because it has prevailed supply-side orientation in economic policy. Even today it is not the consumption seen as the engine of growth and prosperity but the high rate of savings, productive investments and large industrial exports. Nowadays Germany is the main engine of EU economy and integration process, the major industrial exporter and the promoter of austerity policies, based on demand contraction, within the EU. For Joseph Stiglitz (2014) austerity policy promoted and imposed by Germany to Southern and Eastern European countries, mainly to eurozone countries, proved to be an *utter and unmitigated disaster,* leading to a cumulative loss of potential GDP more than $6.5 trillion in Eurozone, record high level of unemployment in Spain and Greece (25% of total labor force and 50% of young people), medium term economic stagnation if not a triple-dip recession, forced privatization by selling state-owned assets at low prices, lowering the standard of living and massive depreciation of the middle class, weakening of the democratic system.

7. Conclusions

If in Europe Germany is a good example of a state based on supply side policies, in Asia Japan, China and the four tigers are also good examples of supply side policies implemented by governments for a long period and focused mainly on a pro-active industrial policy. In all these states economic growth is based on high exports or on foreign demand. But export oriented growth reached its limits and created imbalances in world trade and economy. USA oscillated between supply side policies implemented by Republican Administrations and demand side policied chosen by Democrat Administrations both on the background of liberalization and deregulation of American economy. In EU only Germany is a typical example of supply side economy while in the other important economies demand side policies are frequently been accompanied by supply side interventionist measures.

Supply side policies and demand side policies have their merits in inducing the financial crisis. The increase of consumption and living standard accordingly must be the result of sound and sustained economic growth, namely by increasing the domestic supply of goods and services. It is not the case in the USA where there is a huge gap between the level of domestic consumption and the level of domestic supply, which led to high deficits and debts. In 2006 and 2007 Peter Schiff drew attention on financial bubble and on the difficult economic situation of the USA, heavily dependent on foreign goods imports and financial resources. William Anderson pointed to the overregulation that suffocates the American industry while the deregulation, liberalization and also market speculators in the financial sector are blamed by Paul Krugman for the crisis. For Joseph Stiglitz, it is obvious that poor quality of corporate governance (greed and incompetence), coupled with ineffective regulation and supervision of financial sector have their contribution to what happened in the American economy.

In EU a good example of supply side policies is EU Lisbon Agenda (with mixed results) followed by Europe 2020 both based on a long term strategic vision and sectoral policies. In Romania, where there is a striking gap between consumer demand and domestic supply which led to a great trade deficit in the last 15 years, the government faces now the dilemma of demand side policies versus supply side policies. For counteracting the effects of recent economic crisis the Government has to combine effective macro-economic measures with sectoral and micro-economic policies meant to promote economic growth, competitiveness and sustainable development.

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Property Restitution In Romania

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Abstract: - The property right is one of the most important right of a person in modern societies. Most of the national legislations consists of complex provision in what comes to protect this right. Due to the legislation lacks or misinterpretations, Romania has become a subject of criticism regarding property right, more specific regarding the properties that were abusively taken by the state during the communist regime.

Key-Words: - property right, compensation measures, laws ,restitution of properties, budget cost.

1. Introduction

In 1991, 1995 and 2001 Romanian Parliament passed laws for property restitution to their lawful owners who lost their possessions during the Communist regime (1945- 1989). Te main goal of these laws was to clarify and accelerate the Communist abuse restoration process. Without such normative acts, the alternative for former previous owners would have been to address the court directly and in some cases no resolving what so ever.

Ab initio, former owners would have to write a notification to those who are empowered by the state to solve property restitution. The legislative introduced local committees as mediators and the committee would deal with the claims in an acceptable way in order to avoid trials. The state established that confiscated property shall be returned to the former owner to his or her possession and ownership, and if this is, according to the Law, not possible, the former owner shall have the right to compensation. If returning possession of confiscated property is not immediately possible, the former owner shall be ceded with the ownership of the confiscated property, and he or she shall establish a lease relationship with the person-holder of the confiscated property at the time of entry into force of the Law, in accordance with market conditions.

The subject of restitution implied nationalized real property as construction land, agricultural land, forests and forest land, residential and commercial buildings, apartments and business premises and other structures existing on the date of entry into force of the Law. The subject of restitution also implied nationalized movable properties registered in the Public Register, and other movable properties which according to the regulations on cultural properties represent cultural properties, and cultural properties of great and special importance.

The laws also stated that confiscated real property may not be fully recovered, the former owner shall recover a part of the confiscated real property and receive compensation for the unrecovered part.Four major land reforms have taken place in Romania: in 1864, 1921, 1945 and 1991. The first sought to undo the feudal structure that had persisted after the unification of the Danubian Principalities in 1859; the second, more drastic reform, tried to resolve lingering peasant discontent and create social harmony after the upheaval of World War I and extensive territorial expansion; the third, imposed by a mainly Communist government, did away with the remaining influence of the landed aristocracy but was itself soon undone by collectivization (considered by some as yet another land reform, which the fourth then unraveled, leading to almost universal private ownership of land today.

2. Return of properties according to Law no. 18/1991

The February 1991 land reform, which followed the Romanian Revolution of 1989, sought to privatize land resources that were in state hands during the Communist period. The goal was to hand back land in state cooperatives to its pre-collectivization owners, with families that did not own land at the time also receiving small allotments. Amidst an anti-Communist public mood of 1990-91, the restored interwar parties (PNL and PNŢCD) loudly called for restitution; initially, the governing ex-Communist National Salvation Front resisted the demand and sought to grant all rural residents 0.5 ha, but in a bid to capture the rural vote, it gave in to pressure to dismantle the collectives, although capping the size of restored properties to 10 ha [1]. (The Front claimed this would promote social equity, with others claiming a political motivation: the recreation of a viable, propertied middle class in agriculture, one that could exert certain kinds of pressure on the state, was precluded.)

In addition to righting a perceived historical injustice, the reform also pleased Romanian farmers, who have a long tradition of working their own land and are tied to it not only for subsistence needs but also out of sentiment (for instance because their ancestors retained it through fighting in wars). Given that many families still held legal title as evidence of their claim to the land, and retained a clear memory of where their plots were located (a memory kept alive during Communism), failure to hand back property put some risks in creating significant social unrest. As well, given the relatively egalitarian land structure prevailing in 1949, historical justice (emphasized by the opposition) coincided with the social equity considerations that preoccupied the government.

Before the reform, 411 state farms and 3,776 cooperatives exploited almost all the country's arable land resources; in 1991, about 65% of this land–belonging to cooperatives–was restored to former owners or their heirs. About 3.7 million peasant households were put in possession of the land, deciding to exploit it either individually or in associations. Peasants farms (the norm) were small, subsistence-based units of 2 to 3 ha each; family association farms covered 100 ha, and agricultural companies' farms were 500 ha in area. Reform of state farms, tangled in politics, was slower: in 1997, 60% of the area was taken up by peasant farms, 10% by family associations and 14% by agricultural companies, but state farms still accounted for 16%. By 2004, however, privatization was largely complete, with the private sector representing 97.3% of production value that year (97.4% of vegetable production and 98.9% of animal production); plans are in place to sell off the remainder of state-owned farmland. Out of 2,387,600 ha (9,218.58 mi²) initially held by the state, 1,704,200 were returned based on Law 18/1991 and Law 1/2000; 574,600 were leased; and 108,800 were in the process of being leased at the end of 2004.

3. Restitution of properties according to Law no. 112/1995

Law no. 112/1995 stated that the former owners - natural persons - of dwelling-houses, passed as such into the property of the State or of other legal persons, after March 6, 1945, with title, and were in the State or other legal persons' possession on December 22, 1989, shall benefit by the remedial measures provided by law. By the provisions shall also benefit the heirs of the former owners, according to the law [2].

The persons benefited by the restoration in kind, by reacquiring the property right on the flats in which they lived as lessees or of those which are not occupied, and for the other flats they shall receive indemnification. In the case of flats passed into State property for which indemnifications were received, if they are occupied by the former owners or are free, they shall be restored in kind. The reacquisition of the property right is conditioned by the repayment of the sum received as indemnification, brought up to date. By flat in the sense of the law, shall be understood the dwelling consisting of one or more rooms, with outhouses, garages and annexes connected with the dwelling, service rooms, garrets, cellars, sheds and suchlike, too, regardless of whether they are situated on the same level or at different levels, and which, at the date of their passing into the State's property, constituted a single self-coif the former owner or the respective heirs were living on December 22, 1989 as lessees in the flats passed into State property, they shall become owners of the respective flat, under the provisions of the law.

In case that several heirs were living on December 22, 1989 each in a flat passed into State property from the former owner, they become the owners of the respective flat. The former owner or the respective heirs, who were living on December 22, 1989 in the same flat together with other lessees, became owners of the whole flat. Evacuation of the lessees and giving possession to the owners were made only after the public authorities or the owner effectively provides an adequate dwelling.

Heirs in the sense of the Law no. 112/1995 were considered by right the acceptors of the inheritance after the date when the petition provided by law was registered. If relatives up to the second degree of the former owner still alive were lessees on December 22, 1989 in the flats taken over by the State from the former owner, the flats shall become their property, with the written consent of the owner.

The law stated that contract titular lessees of flats that are not restored in kind to the former owners or their heirs may choose to buy these flats with down payment of the price or by installments. Many of contract titular lessees of flats that were not restored had bought the flats.

4. Restitution of properties according to Law no. 10/2001

According to Law no. 10/2001 all properties abusively taken over by the state, by the cooperative organizations or by any other juristic persons during March 6, 1945 - December 22, 1989, as well as those taken over by the state on the basis of the Law No. 139/1940 on requisitions and not restored, shall be restored, as a rule, in kind. In the cases in which the restoration in kind was not possible, reparative measures through an equivalent were established. The reparative measures through an equivalent shall consist of compensation with other goods or services offered as an equivalent by the holder, with the agreement of the entitled person, of granting shares in trading companies transacted on the capital market, of face value securities used exclusively in the privatization process, or of pecuniary compensation [3].

By properties abusively taken over it was to be understood: a) the properties nationalized through Law No. 119/1948 on the nationalization of the industrial, banking, insurance, mining and transport enterprises, as well as those nationalized without valid title;

b) properties taken over by confiscation of the fortune, as a result of a conviction for crimes of a political nature, provided for in the penal legislation, committed as a manifestation of the opposition to the totalitarian communist system;

c) properties donated to the state or to other juristic persons on the basis of some special normative acts adopted during the period March 6, 1945 - December 22, 1989, as well as other properties donated to the state, if the action for the rescission of the deed of gift or for the acknowledgement of nullity of the gift by a final and absolute judgment was admitted;

d) properties taken over by the state for non-payment of taxes for reasons independent of the owner's volition, or those considered as abandoned, on the basis of an administrative order or of a judgment, during the period March 6, 1945 - December 22, 1989;

e) properties taken over by the state on the basis of certain laws or other normative acts unpublished on the date of the takeover in the Official Gazette or the Official Bulletin;

f) properties taken over by the state on the basis of Law No. 139/1940 on requisitions, and which were not been restored or for which the owner did not receive equitable compensation;

g) any other properties taken over by the state with valid title, such as it is defined in art. 6 para (1) in Law No. 213/1998 on public property and the legal regime thereof;

h) any other properties taken over without valid title or without the observance of the legal provisions in force on the date of the takeover, as well as those taken over without legal grounds by decision documents issued by the local organs of the power or of the state administration.

The persons whose properties were taken over without valid title maintain the quality of owner they had on the date of the takeover, which they shall exercise after the receipt of the decision or judgment of restoration, in accordance with the provisions of the law.

A problem appeared when the rightful owners of the buildings that were abusively taken over by the state during March 6, 1945 - December 22, 1989 tried and obtained the property of the houses that were bought by tenants according to Law no. 112/1995. Another problem was the delay process in solving the problem. The best solution would have been to have a clear cut decision at some point, even if on the legal edge or even a more restrictive one, in terms of restitution conditions. Another problem, even more important, is that of buildings which are returned twice: once to the rightful owners confiscated after 1949; and the second time, to those living in the houses in the 80s, with a right to live there but without property rights, who were evacuated when the buildings were demolished due to public utility works.

5. Solution given by the European Court of Human Rights in Atanasiu and others vs. Romania

In a pilot judgment, The European Court of Human Rights adjourns the cases concerning properties nationalized during the communist era in Romania pending general measures at national level. The case of Maria

Atanasiu and others v. Romania concerns the issue of restitution or compensation in respect of properties nationalized or confiscated by the state before 1989 [4]. The European Court of Human Rights recognized that series of restitution laws were enacted in Romania following the collapse of the communist regime, based on the principle of restitution in kind, or compensation where restitution was not possible. The compensation was capped during some periods and not during others and was payable in cash at some times and in either cash or shares at others; since 2005 it has been paid through the Property Fund, which has yet to be listed on the stock exchange. Several hundred thousand individuals in Romania continue to wait for processing of their claims for restitution or compensation. The applicants in Maria Atanasiu and others v. Romania are three Romanian nationals who live in Bucharest. The first two applicants, Maria Atanasiu and Ileana Iuliana Poenaru (application no. 30767/05), were born in 1912 and 1937 respectively. They are the heirs of Mr Atanasiu, the former owner of a building in Bucharest which was nationalized in 1950 and is now divided into several flats. After 1989, relying on the provisions of ordinary law, they secured the return of seven of the flats and compensation in respect of an eighth, the domestic courts having held that the nationalization of the building had been unlawful. With regard to the last remaining flat, which is the subject of the case in question, the High Court of Cassation and Justice ("the HCCJ") on 11 March 2005 declared the applicants' action for recovery of possession inadmissible, on the ground that they should have made use of the restitution or compensation procedure applicable at the time under Law no. 10/2001 on the legal status of nationalized property. As they did not receive any reply within the statutory time-limit in response to the claim they lodged under that law for restitution of the flat, the applicants brought proceedings against Bucharest City Council, which on 18 April 2005 was ordered by the HCCJ to give a decision. To date, the applicants' claim for compensation has still not been determined by the city council. The third applicant, Ileana Florica Solon (application no. 33,800/06), was born in 1935. She complained of her inability to obtain compensation on the basis of Law no. 10/2001 (as amended by subsequent texts) for the damage sustained on account of the nationalization of an area of land for use by the University of Craiova. Mrs Solon applied for compensation to the University, which refused her request in a decision of 10 July 2001. Subsequently, the HCCJ, in a final judgment of 30 March 2006, ruled that Mrs Solon was entitled to compensation in the amount claimed. To date, the applicant has received no compensation. In June 2010 the Romanian Government informed the Court that her claim would receive priority treatment. The Court decided to deal with the case under the "pilot-judgment" procedure, which is aimed at the overall settlement of large groups of identical cases. The Court has already found over 150 violations in cases of this kind, and several hundred similar cases are pending before it. The first two applicants complained that they had not had access to a court in order to claim restitution of one of the nationalized flats. All three applicants complained of delays on the part of the administrative authorities in giving a decision on their applications for restitution or compensation. They relied on Article 6 § 1 (right to a fair hearing within a reasonable time) of European convention of Human Rights and Article 1 of Protocol No. 1 (protection of property) of European convention of Human Rights and Article 1.

The Court considered that the need to strike a fair balance between the general interest and the protection of the individual's fundamental rights also applied in the context of far-reaching change linked to reform of the State; however complex such reform, it must not entail consequences at variance with the Convention.

In the applicants case, the final court rulings ordering the authorities to give a decision on the claim lodged by Mrs. Atanasiu and Mrs. Poenaru and fixing the amount of compensation due to Mrs. Solon had not been enforced to date. The Romanian Government had not given any reasons to justify the failure to secure the applicants' right to compensation. That failure, and the uncertainty as to when the compensation might be paid, had imposed a disproportionate and excessive burden on the applicants which was incompatible with their right to the peaceful enjoyment of their possessions under Article 1 of Protocol No. 1.

The pilot-judgment procedure, which the Court decided to apply to the case of Maria Atanasiu and others v. Romania, was designed to assist the member States in fulfilling their role in the Convention system by resolving structural problems speedily at national level. That entailed an assessment by the Court extending beyond the case of the individual applicant, in the interests of other potentially affected persons.

Several judgments by the Court - in the cases of Viasu, Faimblat and Katz - had already resulted in findings of a violation of Article 6 § 1 and Article 1 of Protocol No. 1 on account of shortcomings in the Romanian system of compensation and restitution. Those judgments had identified some of the causes of the problems in question, in particular the gradual extension of the reparation laws to cover virtually all nationalized immovable property, resulting in a heavy workload for the authorities. The simplification of the procedures as a result of Law no. 247/2005 represented a step in the right direction, provided that it was backed up by the appropriate human and material resources. The Court noted, however, that by May 2010, out of a total of 68,355 files registered with the Central Compensation Board, only 21,260 had resulted in a decision awarding a "compensation certificate", and that fewer than 4,000 payments had been made. While the Court took note of the very substantial cost to the State budget represented by the restitution and compensation scheme, it observed that the listing of the Property Fund on the stock exchange, which had been due to take place in 2005, had still not been accomplished, although the diversion towards the stock market of some of the claims from persons in receipt of "compensation certificates" would reduce pressure on the budget.

As the pilot-judgment procedure was aimed at allowing rapid redress to be afforded at national level to all those affected by the structural problem identified, the pilot judgment could indicate that examination of all similar applications would be adjourned pending the adoption of general measures. In today's case, in view of the very large number of applications concerning similar issues, the Court decided to adjourn examination of those applications for 18 months from the date on which the present judgment became final, pending adoption by the Romanian authorities of measures capable of providing adequate redress to all those affected by the reparation legislation.

6. Restitution Problem in numbers and Conclusion

According to the Romanian Government, 202,782 claims had been registered with the local authorities under Law no. 10/2001. 119022 files had been examined and an award of compensation had been proposed in 56000 cases; 46701 files compiled under Law no. 10/2001 and 375 under Government Emergency Ordinances nos. 83/1999 and 94/2000 had been forwarded to the Central Board, which had issued 10.345 “compensation certificates”. The remaining files were under consideration; with regard to Laws no. 18/1991 and 1/2000 concerning agricultural land, according to a partial calculation relating to eight out of forty-one counties, almost one and a half million claims for restitution or compensation had been lodged with the local authorities. A total of 55,271 files compiled under the laws in question had been forwarded to the Central Board, which had granted 21,279 of the claims and had issued 10,915 “compensation certificates”. The remaining files were under consideration; With regard to claims for restitution of land or compensation under Law no. 247/2005, over 800,000 claims had been registered with the local authorities. Approximately 172,000 of these had been granted and compensation had been proposed; of the persons who had received “compensation certificates”, 15,059 had opted to receive part of the sum in cash, amounting to a total of about RON 2 billion (approximately EUR 400 million). 3850 people had received payments amounting to RON 350 million (approximately EUR 80 million). Shares in the Property Fund, in existence since December 2005, are still not listed on the stock exchange. However, since 2007 the Fund has been paying dividends to its shareholders and since March 2008 its shares may be sold by means of direct transactions under the supervision of the stock exchange regulatory authority. For instance, 206 sales of shares were registered in May 2010. According to the information published on 4 June 2010 by the Property Fund, the Ministry of Finance is the major shareholder, with 56% of the Fund's shares, 12% are held by 103 legal entities, while 31.4% are owned by 3622 individual shareholders. According to Government estimates a total of EUR 21 billion will be needed to pay the compensation provided for by the compensation law [5]. Until now, the Romanian Government hasn’t solved this complicated problem.

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The Banking Union - The Solution To Reduce The European Banking System Risks?

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Abstract: - The banking union has been seen as "a panacea" for solving the system risks of the EU banking system. This paper objectives are to find out if is the banking union, with is strong and week sides, will be right answer to solve the actual issues that EU banking system has as: the fragmentation in the EU single market, the deterioration in asset quality, the need for recapitalization and the quality of banks' loan portfolios. According with most of the experts the banking union will strength the process of economic integration. On the other side, the non-euro area member states are questioning about "equal rights and obligations for all Member States" inside the banking union. But, with all pros and cons of the banking union, the ECB's making decisions and tasks can be questioned, although its role of supervisor can not be disputed. The most important thing is that the banking union breaks the vicious circle between banks and sovereign debts, and ends "to big to fail".

Key-Words: - Banking union, risks, integration, supervision, regulations, institutions

JEL Classification: - E5, E52, E58, G, G2

1. Introduction

The recent international financial crisis that has began in 2008, led the European Commission to take a number of measures in the EU to create a safer financial and banking sector and to strengthen financial supervision. Therefore, EU has established new European supervisory authorities (ESA), operational since January 2011, as: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

To intensify the European integration process and to increase mutual accountability in the financial banking sector between Member States, during the European Council and Summit for Euro zone, which took place in late June 2012, the Heads of State and Government of the EU member states have decided to create a banking union, in order to complete the Economic and Monetary Union (EMU). The Banking Union is based on three pillars: the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and the Deposit Guarantee Schemes

The European Commission's main objective is to improve the financial market efficiency, integrity and transparency in order to ensure the funds available for financing the real economy and society development, by the instrumentality of the banking union.

2. The major risks of the European banking system

The European Banking Authority in its reports on "Risk Assessment of the European Banking System" analysis the EBA key risk indicators (KRI), which are a set of 53 indicators collected on a quarterly basis by national supervisors, from a sample of 57 European banks in 20 EEA countries from 2009 onwards. The banks in the sample cover at least 50 % of the total assets of each national banking sector.

The EBA Risk Assessment Report published in July 2013, has presented evidence of the **fragmentation in the EU single market.** In this report, the EBA experts show that "the risks of further fragmentation of the EU single market are evident through the increasing national retrenchment of assets and liabilities, home bias and reduced banks' cross-border financial activity". In 2013 EBA's report is shown that "this trend was mainly driven by banks' revised business strategies, changes in risk appetite, higher funding costs and the challenging macro environment, but it was also exacerbated by uncoordinated national policy measures, including ring-fencing of local bank capital and liquidity".

Furthermore, in EBA 2014 report on "Risk Assessment of the European Banking System", EBA underlines that "EU banks' **income and profitability** has continued to be faced with significant headwinds, which are unlikely to dissipate in 2014 with the looming redress costs related to conduct issues a key concern. The **deterioration in asset quality** not only influences earnings and capital strength of the EU banks but also casts a shadow over near future economic performance. According with EBA in 2013, the total operating income declined 10 billion euro (after a decline of 39 billion euro in 2012) and, in the last quarter of 2013, the annual flow of profits declined by 58% (54 billion euro). Over the course of 2013, EU banks' capital positions have continued to maintain an important increasing trend. In 2013, for example, the euro area banks raised over 80 billion euro in capital and, in 2014, they will raise over 60 billion euro according to some market estimates. EBA identifies as a risk that **the quality of banks' loan portfolios** continued to decline in 2013 and in first months of 2014 and remains a concern, harmfully contributing to the continuation of elevated risk premium levels on European banks. Furthermore, the EBA's key risk indicators show that a positive market sentiment and confidence are strengthening; however, the signs of recovery remain modest and fragile."

According to the EBA (2014) assessment of risks "a coordinated policy action remains fundamental for the coherence of the single market. Initiatives such as the asset quality reviews (AQR), common definitions on "nonperforming exposures" and "debt forbearance" form part of broader policy actions aimed at addressing the current situation in the EU by restoring stability and confidence in the markets. Moreover, new regulatory requirements for banks (e.g. the CRD IV-CRR and the Bank Recovery and Resolution Directive BRRD) are fundamental for the ongoing repair of the EU banking system. The sovereign bank linkage persists and there is evidence of disparities in funding conditions and funding costs between banks domiciled in financially strong and financially stressed sovereigns. EBA experts recommend that "the institutional reforms at EU level are crucial in breaking this pernicious linkage, more specifically in the establishment of the banking union, including the implementation of a more integrated framework for bank resolution and an appropriate single deposit guarantee system scheme."

3. Non Euro zone Member states official's positions on banking union

The Romanian National Bank Governor, Mugur Isărescu supports that the project of creating a banking union will be applicable to the member states that are not in the Euro zone. He underlines that the voluntary participation of non-euro states in the Union Banking could mean EU single market fragmentation in participating countries and non-participating. In his opinion, the Banking Union means strengthening the competitive neutrality, by applying principle the "same deal and the same rules." Isărescu (2014) point of view is "that Romania should be part of all three pillars of the Banking Union – despite the sequenced manner in which they will inevitably come into being; all of them are required for the Banking Union to function effectively". Isărescu (2014) believes that European project will strengthen financial stability, further increasing confidence in the national banking sector (through the harmonization of supervisory practices and deposit guarantee schemes), as well as fostering sustainable lending and economic growth (by reducing fragmentation of European financial markets).

The former Swedish Minister of Finance Anders Borg, point out that the idea of an institution supervising the countries outside the euro area, that would have no right to vote, can not be accepted. Furthermore he is concerned about the provision that stipulates the independence of the European Central Bank. In his opinion, this means that in the event of a dispute, the ECB will not be subject to the decisions of the European Banking Authority (EBA). Or, the ECB, in its role of supervision, has just designed to enforce the rules decided by EBA.

A special case is Estonia, a Euro zone member, as its whole banking sector is in Swedish bankers hands. But Sweden is outside the Euro zone, so Estonia will be in the banking union, but its banks will remain under national supervision from Sweden.

Poland's central bank governor Marek Belka criticized Europe's plans for a banking union, saying that non-Euro zone countries that join would be at a disadvantage and have little influence over key decisions. In his view, a problematic solution of the banking union is if will be a common macro prudential policy, or very much coordinated, for the Euro zone countries with others. Similarly, Poland along with Hungary seeking voting rights in the ECB and equal rights and obligations for all Member States. Meanwhile, Hungary has many questions about the proposal from the Commission and shall not be given until it will clear all obligations and rights that states will join the banking union.

The Czech authorities have their doubts concerning the Banking Union. It is believed that could affect the financial stability of the country in condition that the Czech banking system is consider being a very stable one. Other Czech experts are in favor. According to Andreas Treichl, the CEO of Erste Group, countries such as the Czech Republic should join the emerging European banking union. "Even though joining this union is not a question for the Czech Republic to resolve for the coming two to three years, but eventually it will be necessary", is the opinion of Andreas Treichl, the CEO of Erste, the owner of Ceska Sporitelna, the largest bank in the country. At the beginning of 2014, he has reveled that joining the banking union means "to decide whether you want to be part of Europe or not.” Treichl (2014) underlines that therefore also have to bear the costs, and even states not using the euro will be able to join the euro zone’s banking union. He underlies that in that case, however, countries such as the Czech Republic would have to participate in bailing out banks and deposits in Spain or Italy, or in other countries that would get in trouble.

Initially, the Bulgarian officials have considered that will not be in the interest of the country, because the banking union will involve a significant transfer of a part of national sovereignty to Brussels, without much benefit. But on July 2014, the president Rosen Plevneliev said "there is full consensus for an immediate start of procedures for Bulgaria's entry into the Single Supervisory System of the European Union as a first step to joining the EU's banking union". Bulgarian officials have decided to join the a new EU set of rules known as the 'banking union' after poor bank supervision led to the collapse of its fourth-biggest lender bank Corporate Commercial Bank (CCB).

The Bankers and UK officials are worried that the new supervisory power of the Central European Bank could affect UK banks, in condition that the banks with headquarters in the UK that have subsidiaries in the Euro area will not escape the new regime for the supervision of ECB. The British analysts fear that the international banks may prefer to establish headquarters in EU at the expense of London, if the UK will be disadvantaged by the Banking Union reglementation. The British Bankers Association has also expressed fears about the future of the single market. Officials and representatives of the British banking industry fear that the EU will use the crisis to seize more power, for moving European financial center from London. On the other side, George Osborne, British chancellor of the Exchequer and Second Lord of the Treasury since 2010, has argued for single market protections for non-euro members to be written into the EU treaties. He appreciates that "access to the single market in financial services and the free movement of capital provides significant benefits for the UK financial services industry and for consumers".

The obstacles for achieving banking union are large and numerous. Countries like Sweden, Hungary, Poland, and Czech Republic are dissatisfied that Commission proposal do not offer favorable conditions for those who choose not to enter banking union and weak guarantees towards the supervision authority. Apart from Great Britain states, there are not objections in principle against the banking union, but non Euro zone member states want more influence capacity. The deepening of the integration of financial (economic) by making banking union is so evident, but there are dangers of the divisions of the EU. The making decisions process and the tasks of the ECB can be questioned, although its role of supervisor can not be disputed.

4. Pros and cons of the banking union

Douglas Elliott (2012) underlines that a single supervisory regime for Europe would be good, but only if it has the right governance structure, so that all concerned can defend their viewpoints and their interests. Elliot (2012) highlights that having a euro zone entity effectively dictate overall EU policy is not appropriate and would ratchet up tensions with the U.K, especially given the often quite divergent views of finance and its regulation that are espoused by the U.K. as compared to the continent. In his opinion, in the worst case, tensions of this nature could help push the U.K. to exit the entire EU.

Elliott (2012) appreciates the commission’s proposal attempts to ameliorate this issue by cementing the EBA’s legal position as the overseer of the supervisory framework for banking in Europe (particularly by making it the author of a “single supervisory handbook” that would bind the ECB and all other supervisors in the EU) and by offering a new voting structure in the EBA to protect non-members of the banking union. Elliott

(2012) comments that the intentions are laudable, but it is not clear that either step will be very effective or there is no obviously superior answer, given the U.K.'s unwillingness to join the banking union or the euro zone.

Elliott (2012) considers that creating a banking union would have pros and cons with regard to macro prudential policy. He appreciates that "would make it distinctly easier to deal with credit bubbles or crunches that were broader than in a single country, but might make it somewhat more difficult for national authorities to tackle homegrown problems, if too little flexibility is provided for national responses".

One critical question is whether the banking union should be "just" for the Euro zone or for the whole EU. Thorsten Beck (2012**)** has analyzed the risks and the challenges of the banking for EU. Beck (2012) argues that the need for a banking union is stronger within a currency union, as it is here where the close link between monetary and financial stability plays out strongest and where the link between government and banking fragility is exacerbated as national governments lack policy tools that countries with an independent monetary policy have available.

Jeromin Zettelmeyer, Erik Berglöf and Ralph de Haas (2012) notice that emerging European countries are concerned about insufficient influence on the proposed Single Supervisory Mechanism and the prospect of fiscal responsibility for crises elsewhere. Some countries outside the Euro zone also worry that exclusion from potential access to the European Stability Mechanism might tilt the playing field against local banks. On the other hand, they argue that non-Euro zone countries should be allowed to opt into the banking union but, if they do so, must be given a say in the governance and access to euro liquidity through swap lines with the ECB. They propose that apart from full membership, intermediate options could be considered which would extend. (Jeromin Zettelmeyer, Erik Berglöf and Ralph de Haas, 2012)

Charles Wyplosz (2014) sees the banking union as crisis management tool. He underlines that ECB is to fulfill its role of lender of last resort to all banks, it also needs the authority to supervise and resolve all banks. It is essential to understand that a partial banking union is no better than no banking union at all, and possibly worse. (Wyplosz, 2012). In his opinion a banking union is politically difficult to achieve, because it involves a transfer of competence from national to Euro zone authorities, it entails apparent income redistribution among countries, and it requires the setting up of new institutions. Wyplosz (2012) concludes that "the banking union is need is only apparent at crisis time, even though its existence is bound to change incentives of both banks and governments and the consequences of these changing incentives are unpalatable to banks in quiet times inasmuch as they result in less risk-taking and less profits".

Luis Garicano (2012) has analyzed the Spanish financial crisis, and diagnosed has been a "crisis of the *caja* (savings and loan) sector". As the example of Spain shows, in systemic crisis the problems do not necessarily have to affect large institutions, but may instead impact a lot of small institutions. In his review, the small institutions may play "the role of the canary in the mine" in anticipating the systemic problems. The supervisor should have all the relevant information and that requires covering (essentially) the entire banking system, as in the European Commission's Single Supervisory Mechanism proposal (COM 2012 511). (Garicano, 2012).

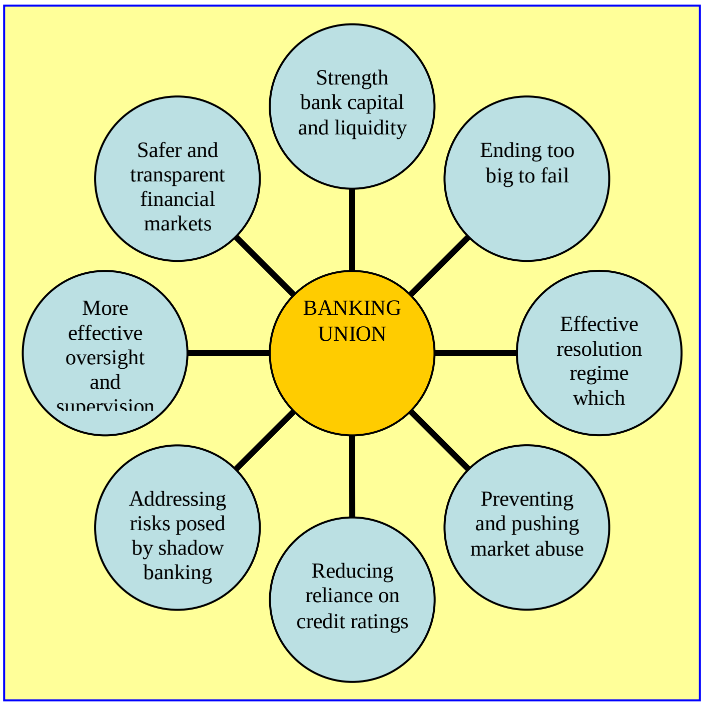
According with Schoenmaker, D. and T. Peek (2014) "the main challenge of the banking union is to counter the fragmentation of the European banking market". Firstly, they recommend that the Central and Eastern European member states countries may exercise their option to join Banking Union at some point in the future, as their financial system is much dependent on the Western-European banks, which are mostly covered by the Banking Union. Secondly, they recommendation that Central and Eastern Europe policy-makers would thus get a seat at the ECB's Supervisory Board and contribute to the supervisory assessment and decision-making on these large European banks. Thirdly, the recommendation is that a strong and decisive recapitalization is needed to get the banking sector back in the good equilibrium, in which they contribute to economic growth. (Schoenmaker, D. and T. Peek, 2014)

5. Conclusions

In the KLMG (2014) study on "Evolving Banking Regulation", has been highlighted that many risks remain in the European banking system, "the most important of which relate to liquidity, the leverage ratio, and risk-weighted assets". According with KLMG experts, "a higher minimum leverage ratio would become the binding constraint for a larger number of banks. It would therefore increasingly become a 'front stop' rather than a 'back stop' requirement." In this report is underlined that since one key rationale for making the ECB responsible for banking supervision across the banking union was to move away from the perceived weaknesses of some national supervisors, it would be reasonable to expect the ECB to adopt a generally tough and intensive supervisory approach. KLMG appreciates that the strengthening the supervision role of the ECB by the banking union, “moves towards greater consistency in how banks calibrate their internal risk models; in the definition and treatment of non-performing exposures, provisioning and forbearance; and in the use of macro-prudential tools”.

European Commission sees the banking union as solution to break the link between the banks and sovereigns, by which the banks will become stronger and immune to shocks and will have a better capacity to manage adequate risks linked to their activities and absorb losses. The banking union is based on three steps solution: crisis prevention (safer banks), early intervention (banks supervision), and the last, but not the least crisis management (banks resolutions and depositors protection).

Figure 1: The role of the EU banking union in solving the banking system risks



Source: Information from European Commission (2014). Banking Union: Restoring financial stability in the Euro zone,
Memo 14/294, 15 April 2014;

Danailă (2014) shows that both banks and the euro area in the medium term are preparing for an increase in costs with reserves between 2014-2016, in order to implement the provisions of the Banking Union and is obvious that we will see the decrease of interest in the emerging EU. Danăilă (2014) underlines that European banking crisis is the result of macroeconomic imbalances and excessive credit expansion. He recommends for Romania that it is necessary to achieve a nationally effective combination between a prudent management of each bank (an effective banking supervision system) together with deepening fiscal and structural reforms.

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Challenges Of The Land Reform In The Former Communist States Of Central And Eastern Europe

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Abstract: - As it is well known, after the collapse of the totalitarian regimes in Central and Eastern Europe, the economic development of the former communist states in the region was subject to a series of systemic transformation. One of the most important was the large-scale abandonment of state ownership in the agricultural sector, a transformation that was essential for boosting economic development. Our article aims to present the land property privatization process in the former communist countries of Central and Eastern Europe, pointing out the obstacles which hindered this action and represented barriers of the reform process. By using a comparative approach, the paper will also underline the main challenges in the land privatization process: state owned land reserves, farm restructuring, land transaction, mortgage, role of public and private sector.

Key-Words: - Land reform, former communist states, agricultural sector, land property privatization

JEL Classification: - N, O, Q, L51, N54, O18

1. Introduction - Brief historical context of the evolution of the former communist states in Europe

After decades of Soviet political and economic domination, the countries in Central and Eastern Europe had the historic opportunity to return to political democracy and economic freedom, a process following which, against the background of the collapse and dismantling of the power and influence pole represented by the former USSR, they began their way towards economic restructuring and political reform.

Regarding these ample transformations, the scholarly literature (Boone et al,, 1998) considers that the collapse of communism in Central and Eastern Europe was the most important historical event after the end of the Second World War.

The path from totalitarianism to democracy and from a closed, state-planned and autarchic economy towards a functional market economy was difficult and lengthy and its degree of success depended on the success of structural reforms, but also on the commitment of political actors and of the civil society in these countries.

The first step in the changing of the economic development paradigm of the former communist states was the privatization of non-viable industrial enterprises (whose survival was not due to economic performance, but to public subsidies received from the state), coupled with the land ownership reform, with the dissolution of the various forms of collective ownership in the rural area and the return of the land to the former owners.

At political level, the process of democratic transformation and economic liberalization was doubled by the efforts made by all these states for the integration into the European Union.

As certain analysts have shown (McCollum & Gentle-Marsh, 1998), the “guiding light” for the post-socialist transition process and the privatization reform in the former communist countries was the European reintegration, an objective that laid down the milestones for the ample political and social transformation process triggered by the collapse of the communist regimes in Europe. In fact, the European Union accession process was seen in these states as a symbol for achieving political freedom and economic prosperity, since the European Union itself was conceived based on the principle of using economic leverage in order to create stability and social welfare in the region.

In fact, the specialized literature (Anderson et al, 2001) considers that the desire to return to Europe, from an economic and political point of view, was one of the dominant leitmotifs of the transition processes in the countries of Central and Eastern Europe, with the perspective of being a full EU member, as well as an institutional component of a single political and economic area representing a major objective of the reform in these states.

2. Land ownership reform in the rural area of Central and Eastern European former communist countries

The shift from a planned economy to a functional market economy could not have been achieved without the privatization and reform of land ownership in the rural area, which was affected the most by nationalization and collectivization.

In the post-communist period, all Central and Eastern European states, with the exception of Poland and Hungary, engaged in some form of restitution of agricultural land property rights to the former owners.

These countries can be divided into three categories (as illustrated in Figure 1): (1) the countries which reestablished the ownership rights of the persons whose land had not been expropriated, and which also restituted a much smaller share of the land held by the state, (2) the countries which granted compensations to former owners and which provided or sold the land to the former agricultural workers, and (3), the countries which restituted agricultural land to former owners only.

Figure 1: The land ownership reform in the former communist countries in Europe

RESTITUTION OF PROPERTY RIGHTS	**COMPENSATIONS TO FORMER OWNERS**	**NO RESTITUTION OF LAND PROPERTY**
THE CZECH REPUBLIC – the reestablishment of the property rights held prior to the expropriation; **SLOVAKIA** – distinction between “entitled” owners and “associations”; **ROMANIA, BULGARIA, ESTONIA, LITHUANIA, LATVIA** – *restitutio in integrum.*	**HUNGARY** – the compensations to former owners were preferred to direct restitution.	**POLAND** – there was no restitution, as Poland was the only communist country in Europe where collectivization did not take place.

Source: The author’s own synthesis based on the specialized literature consulted.

The Czech Republic, Slovakia, Poland and Slovenia did not expropriate all the agricultural land in the communist period. In Poland and Slovenia, private small farms continued to function throughout the communist regime.

In the Czech Republic, the collectivization of agriculture began in 1948, but individual land ownership was not entirely abolished. Nevertheless, use rights were assigned to the state and to agricultural cooperatives and, under political pressure, many owners simply gave their agricultural land to the state. According to the cadastre records in the Czech Republic, before the beginning of the post-communist agrarian reform, 68% of the agricultural land belonged to state-owned cooperatives and only 28% to individual households.

The Czech agrarian reform consisted not so much in the transfer of ownership over the collective land held by the former cooperatives, but in the reestablishment of the supremacy of the property right of the users of agricultural land (the official legal restitution to former owners). The former owners of the land expropriated by the state during the communist period were able to claim land or assets or to opt for receiving compensations. By 1998, the land property restitution process was almost complete in the Czech Republic, with 80% of the agricultural land being, at that time, privately owned, and over 90% of the restitution cases being legally settled. Some analysts (Giovarelli & Bledsoe, 2001) consider that there still remains one unresolved structural issue, namely that of the potential groups of claimants (resulting from the mass migration of the communist period), who were not able to claim restitution in accordance with the 1991 legislation and whose processes remained pending on the dockets of the courts of law.

In Slovakia, the land property restitution process was, up to a point, congruent with that in the Czech Republic. After the dissolution of Czechoslovakia, the Slovak authorities claimed that the agricultural policies of the former union had failed to take into account the different conditions existing in the two republics, and that, in fact they had been devised for the Czech Republic. As a result, a new land ownership reform was applied which led, by the end of 1992, to the creation of a multitude of family farms with a property size of less than one hectare. In Slovakia, the land property restitution process took into account two types of beneficiaries. The first were the "entitled persons," the target beneficiaries of the restitution process. The "entitled persons" were the citizens of Slovakia with a permanent residence in the country and whose land and buildings had been physically (not only legally) transferred to state property or to the property of a legal person between 25 February 1948 and 1 January 1990. The second were the "persons with a potential right," who were natural or legal persons (including the state), who were in possession of the land in question. In order to receive that land in private ownership, they had to submit a request to the Slovak Land Office by 31 January 1993. At present, the land property restitution process in Slovakia is almost completed. The problems that affect the completion of this process include the failure to update the property registrations from the years of the socialist regime.

In Slovenia, the small farms belonging to single owners also survived during the communist period, even under the unfavorable regulatory and political measures, such as the constitutional restrictions related to the maximum size of the farm. In the communist period, Slovenian agriculture was not efficiently collectivized and, as a result, state farms only held a small part of the agricultural land. The land restitution process in Slovenia was completed in 1991, through the granting of compensations to the former owners expropriated by the Yugoslavian government after the Second World War.

Thus, in accordance with the Law on De-etatization of 1991, the land formerly held by the state and belonging to agricultural companies became state property and was transferred to the management of the Fund for agricultural land and forests. So far, only 40% of this land has been returned to the rightful owners, due to pending litigations and the numerous legal complications. For instance, the managers of agricultural companies opposed the allocation of land to the land fund, and refused to analyze the claims of former owners. The latter referred to the courts of law, but the litigations extended and may claims remain, to the day, unresolved.

In post-communist Hungary, the land reform process was based on the compensation of former owners, rather than on restitution, and workers who did not own land in the state farms and cooperatives were granted small-size land plots, on request. According to national statistics, 50% of the country's land territory was subject to compensation requests and over 2.1 million new land units were created in this process.

Compensation laws adopted between 1991 and 1997 provided for the granting of compensation bonds to the persons whose assets (including land) had been seized during the communist regime, as well as to persons who had been subject to political and racial discrimination in the former political regime. These bonds could be used for bidding for the purchase of the land held by production cooperatives and state farms in auctions organized by the state. As a result of this process, one third of the land of the former cooperatives was purchased using compensation bonds, one third remained the property of the former members of the dissolved cooperatives, and one third was redistributed to the members of the former cooperatives who had not owned land before the collectivization. The compensation process ended in 1997 and 90% of the land was in this way allocated to private ownership. However, as this was a lengthy process, agricultural development was affected (Mathijs, 1997).

Moreover, in Hungary, the new owners who purchased land by means of the compensation bonds were not, in many cases, persons engaged in agriculture and did not live in the rural area. As a result, they did not become involved in agricultural activities and preferred to lease the land to be used by corporate farms and individual farmers.

Romania, Estonia, Lithuania, Latvia and Bulgaria returned the land to the former owners. In these countries, the land had been expropriated from the former owners during the collectivization process in the communist period. The majority of the new owners who received land were not, at the time of the restitution, involved in agricultural activities in the former cooperatives. Each of these countries now faces a unique set of problems related to the restitution process.

In Estonia (as well as in Latvia and Lithuania), the agrarian reform process began in 1989. This process attempted to reestablish the property structures existing before the communist period and to return agricultural land to the former owners or their heirs. The fact that in all these countries there were cases of multiple successions created serious problems related to the co-ownership of the agricultural structure. The process was complicated by the large number of restitution requests. Furthermore, the rural infrastructure was abandoned during the communist period: new cadastral limits had to be drawn, along with the reconstruction of the electricity and water service infrastructure, a process which further complicated the restitution process. Many initial requests were withdrawn when city inhabitants understood that agricultural practice meant moving to an environment with problematic infrastructure.

Of the total number of claims submitted during the land restitution process in Estonia, only approximately 25% of the agricultural land returned to individual owners, while for 75% of the agricultural land there were no claimants or previous owners. Over 30% of the land was left uncultivated.

In Romania, the Law on the restitution of agricultural land was adopted in February 1991. Its entry into force led to the dissolution of 3,700 collective farms and to the restitution of the related land to the former owners.

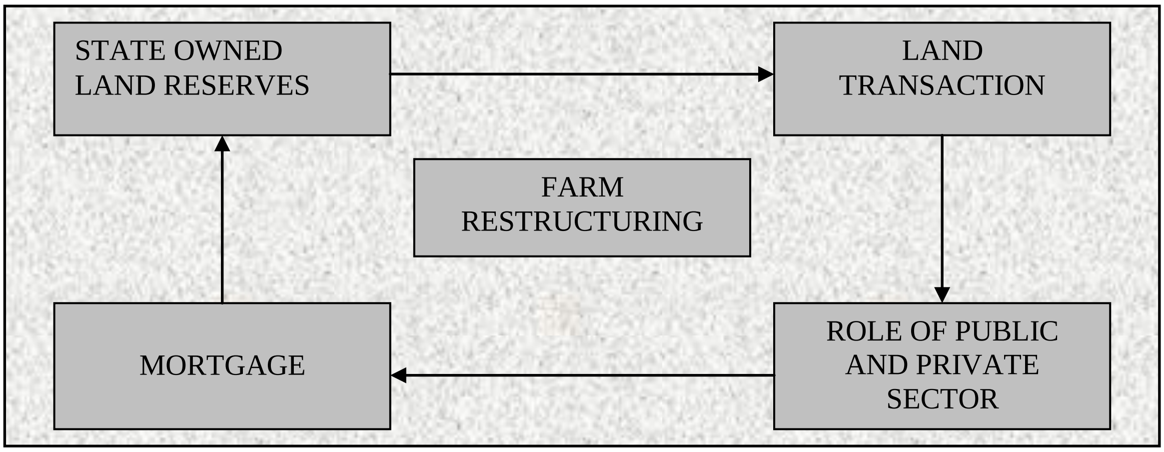
According to official statistics, up to 10 hectares of arable land and one hectare of forest land were restituted to each family. Nevertheless, the law did not apply to 30% of the agricultural land in Romania, the state’s justification for this decision being the necessity to ensure food security. This provision was only repealed in January 2000, when Romania adopted a law that for the first time allowed the restitution of state agricultural land with an area of 50 hectares of arable land and 10 hectares of forest land per family. The same law also states that the original land plots of owners should be returned, where possible, and, if not possible, that a financial compensation should be granted. According to national statistics, of the 4.3 million claimants, 3.3 million received an “ownership title.” Certain analysts (Zvi, 2000) consider, however, that one problem of the restitution process was the long duration and the excessive bureaucracy, which entailed the slow reinstatement of former owners, against the backdrop of deficient delineation of land plots and lack of clarity in the legislation.

In Bulgaria, according to national statistics, over 90% of the agricultural land was returned to former owners. Nevertheless, it has to be noted that official statistics refer to the fact that the restitution process was completed on paper, in the sense that all eligible land was included in a local restitution plan. Based on this plan, each owner received a writ according to which a land plot would be restituted (based on cadastral measurements and legal decisions). Bulgaria is an example of a country where the land reform process took place with great shortcomings, because the legislation on land restitution was repeatedly amended, causing confusion and implementation difficulties. The legislators sought to be as correct as possible in the restitution process and, therefore, they repeatedly amended the law and the land subdivision regulations. As a result, a series of litigations that affected the restitution process and, for each of them there was an owner whose reinstatement was delayed.

3. Main challenges of the land reform in Eastern Europe

Following the issues previously exposed related to land reform and land market efforts in the Eastern European countries, we identified a series of challenges that represented barriers of the reform process (see Figure 2).

Figure 2: Challenges of the land reform in Central and Eastern Europe



Source: The author's synthesis based on the cited specialized literature.

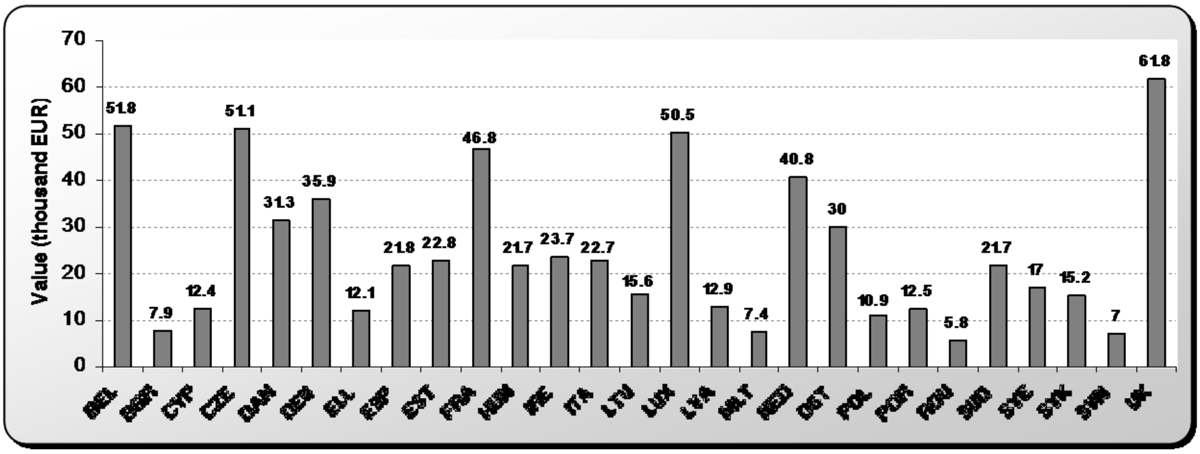
3.1. Land privatization

In the Eastern European countries analyzed (The Czech Republic, Slovakia, Romania, Bulgaria, Estonia, Lithuania, Latvia, Hungary and Poland) all the privatization issues are related to the restitution process primarily. Potential claims of former owners, conflicting laws regarding the restitution process, and unclaimed land have all slowed down the privatization process. As some analysis have shown (Hagedorn, 2004) in former communist countries of Central and Eastern Europe, the restitution of land to original owners in historical boundaries was initiated by means of bureaucratic procedure, but the process proceeded only slowly and was frequently modified by changing governments.

3.2. Farm restructuring

Lack of farm reorganization is still an impediment to market development in many Eastern European countries (some of them EU countries) that restituted agricultural land to its former owners. Hence, in our opinion, for all the analyzed countries, access to agricultural land is a precondition to economic growth. Land reform process affected average farm development in some of the analyzed countries, since, according to the European Commission database (Farm Accounting Data Network, 2013), farms in Bulgaria, Slovakia, Slovenia and Romania registered the lowest income in 2011 (As illustrated in Graph 1).

Graph 1: The European farm net income per country in 2011



Source: European Commission Database - Farm Accounting Data Network (2013).

According to a recent report (DG Agriculture and Rural Development, 2012), farms in Bulgaria and Romania display the lowest value of total assets, as they tend to be smaller[1] than the EU average size (see Table 1) and oriented toward less capital intensive type of farming.

Table 1: Farm size in Eastern European Countries

COUNTRY	AVERAGE FARM SIZE
Bulgaria	29 ha
Czech Republic	232 ha
Estonia	131 ha
Hungary	53 ha
Latvia	65 ha
Lithuania	50 ha
Poland	18 ha
Romania	12 ha
Slovakia	575 ha

Source: DG Agriculture and Rural Development – *EU farms economics*, 2012

In some of the analyzed countries the difficulties of the land reform have generated a poor development of the agricultural farms. For instance, in Romania, the Farm Net Value Added (FNVA)[2] is (according to DG Agricultural and Rural Development data for 2012) of 5,800 euro, far below the EU-28 average (22,700 euro). However, in this respect it should be mentioned that FNVA fails to account for differences in farm size, type of farming or structural decline in the labor force in agriculture. In this respect, FNVA is typically expressed per annual work unit (AWU), which is nothing less than a measure of partial labor productivity. From this perspective, Bulgaria, Romania and Slovakia displayed the lowest FNVA per AWU (3,800 euro, 3,650 euro and 1,600 euro, respectively) as their agriculture has remained largely oriented towards less productive types of farming, namely mixed farming and other permanent crops. Note also that within EU-15, FNVA per AWU was below the EU-27 average only in Greece and Portugal - two member states where a large number of small farms prevails.

3.3. Land transaction

In all analyzed countries, presently, the legal framework for land transactions is adequate and the impediments to transactions relate to administrative process and market imperfections. The most common legal restriction is the prohibition on foreign ownership of agricultural land that occurs not just in the Eastern European countries, but in many countries throughout the world.

3.4. Mortgage

In all the Eastern European countries analyzed mortgage of agricultural land is a legal right, but few landowners are using land as security for loans in the Eastern European countries. In fact, in our opinion, mortgage lending to any great extent will not occur until agricultural land will significantly increase the market value and foreclosure procedures will become reasonably quick and effective.

3.5. Role of public and private sector

[1] The average EU farm size is of about 39 ha.

[2] Farm net value added (FNVA) is equal to gross farm income minus costs of depreciation. It is used to remunerate the fixed factors of production (work, land and capital), whether they are external or family factors. As a result, agricultural holdings can be compared regardless of the family/non-family nature of the factors of production employed.

In all analyzed countries there are a variety of measures that could be undertaken to help create and strengthen the private sector institutions that participate in and support healthy land markets. In some countries (Lithuania[3] and Slovenia) a large private farm sector, but more thought should be given as to how to quantitatively ascertain the progress of such programs. During privatization process of agricultural land in all Eastern and Central European former communist countries, the public authorities have initiated the restitution of property by a diversity of legal procedures, as shown in Box 1.

Box 1: Differences in public procedures related to restitution of agricultural land

STATES	PROCEDURES
Baltic States (Estonia, Latvia, Lithuania)	Restitution to former owners with exception of ethnic Russians;
Romania	Restitution to former owners and per-family distribution of some land, exception land expropriated prior to 1947;
Hungary	Voucher privatization by which 2/3 of the land owned by the collective were distributed;
Czech Republic	Collectivized land was returned to the original owners, but land formerly owned by the Catholic Church was not restituted;
Poland	Because most of the nationalized land was belonging to the German ethnics it was not restituted to them and state owned land has been leased or sold.

Source: The author's synthesis based on the cited specialized literature.

Note: Our analysis concluded that in some countries the privatization policy affects the distribution of assets between ethnic or religious groups. As a consequence, most of these countries did not restitute land to foreigners (living inside the country or abroad) and the public authorities have additionally restricted sales or renting to them.

4. Conclusions

In all Eastern European countries subjected to our analysis, after the collapse of communist regimes, the necessity to privatize land and move toward a market economy was undisputed. All the analyzed countries, except Poland and Hungary, have engaged in some form of restitution of land rights to former owners.

These countries can be divided into three categories: those that re-established the ownership rights of individuals whose land had not been expropriated, and also restituted a much smaller portion of land that had been held by the state, countries that compensated former owners, and provided or sold land to former farm workers and countries that restituted land to former owners only. In some countries, Lithuania, Slovenia, Romania, Latvia and Poland, there is a large private farm sector and a much smaller cooperative or state farm sector. In each of the countries, the clear policy of the government has been to encourage and maintain small private farming units. Some of the former communist countries from Eastern Europe have significant restitution problems. In many cases the restitution process is incomplete, and, without title of property for land, no purchase or sale of land can occur.

Even in those cases when the restitution process was complete (e.g. Bulgaria[4]), the many claims to land caused insecure land tenure, not only for the land owners themselves, but also for the neighboring land owners. In addition, there was little incentive to sell land, because the land tax was forgiven on restituted land for 5 years. At this time, while land tenure is legally secure, landowners do not have confidence in the security of their rights because the restitution law has changed so many times.

[3] Lithuania has a particular situation since, while it still has large amounts of state-owned land, the land is leased primarily to private farmers. The key factors leading to the relative smallness of the agricultural company sector have been government policy to transfer land (through restitution and leasing of state land) to individuals, coupled with the prohibition in the Constitution on ownership of agricultural land by legal entities.

[4] In Bulgaria the restitution process was completed in 2000.

In our opinion, in all analyzed countries the restitution of agricultural land has created small land plots and spatially dispersed land and, as a consequence, these countries have struggled with how to encourage land consolidation without over-interfering with the market. State involvement is often not welcomed because countries in transition are moving away from State involvement in agricultural land.

At the same time, very small or dispersed land holdings can make it difficult to reach a level of livelihood seen in Western Europe. In some of the analyzed countries the difficulties of the land reform have determined a poor development of the agricultural farms as their agriculture has remained largely oriented towards less productive types of farming, namely mixed farming and other permanent crops.

Furthermore, in our opinion, farm size in a market economy is an economic variable that reflects market signals. In this respect, in all analyzed countries providing a legal and policy framework in which individual farmers can adjust farm size to respond to market signals is crucial. Thus, the policy and legal framework should not only allow, but also encourage farm reorganization into units of whatever size is chosen by farmers.

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Tourism Industry Worldwide – Testing Some Correlations Between Essential Indicators

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Abstract: - Essential component of the global economy, tourism industry is in a strong interdependent relationship both with other sectors, as well as with different qualitative components– competitiveness, socio-human and environment issues. Result of the specificity of services, touristic consumption, both residents and visitors, is localized strictly to the meeting of supply and demand, so national receipts are consists of domestic tourism and visitor exports. Introducing investment in analysis, and also competitive tourism component, we propose in this paper to test the connections between tourism consumption, capital investments and travel and tourism competitiveness index. In order to achieve the objective, using the latest statistical data, there have been calculated and interpreted Pearson correlation coefficients, starting from the general hypothesis that there is a direct relationship between the variables analysed.

Key-Words: - tourism, visitor exports, investments, travel and tourism competitiveness, Pearson Correlation coefficient

JEL Code: - L83, E22, N70, C10

Introduction

While World Tourism Organization announced in 2012 breaking the barrier of one billion international tourists, last year was marked by an increase of 5 percent of the total arrivals. With an increase in absolute value by 52 million tourists' arrivals, the total number of tourists reached one billion and 87 million in 2013, a level never attained before. Quite rightly Secretary General of UNWTO, Taleb Rifai, believes that "we live in the age of travel"and that seems to be just the beginning. The highest growth rates, according to OMT, were recorded in the Asia and Pacific (6%), Africa (6%) and Europe (5%) and among them regions stood out the following: South East Asia, with an increase of 10% of the total number of international tourists, Central and Eastern Europe, 7%, but also Mediterranean Europe and North Africa with positive rates of 6%. The most important tourist destination remained Europe, reaching a peak of 563 million international visitors in 2013, with 29 million more than previous year. This growth rate by approximately 5%, equal to the global average, is double than the average rate for the preceding years 2005-2012, which was 2.5% per year. As mentioned above, Central, Eastern and Southern Europe experienced favourable recent developments in terms of international tourist traffic. While in absolute terms Europe is international tourism performer, at relative level stands out the Asia and Pacific region, the increase by 14 million tourists last year, representing 6% of total.

So, the evolution of South East Asia area, best performer globally (10%), is complemented by high growth rates in South Asia (5%), but also in the Oceania and Northeast Asia (4% each). 169 million tourists visited the Americas in 2013, 6 million more than in the previous year, the result of evolution increases with 4% in North America and Central America. Slowdown of growth rates were recorded in South America and the Caribbean, reaching levels of only 2% and 1%. Although in absolute 3,000,000 tourists is not a significant amount, the 6% addition tourists in Africa raised the total to a record 56 million. In contrast to the rest of the world, in the Middle East there has been a stagnation of tourist traffic to 52 million arrivals for the second year in a row. So, tourism consumption trend is increasing, the preference for travel being a defining characteristic of contemporary society. Thus, the total tourism exports in the 2013 were 1.2956 trillion dollars, representing 5.4% of total exports. Expected growth for this year is 4.8%, and forecasts for the period 2014-2024 are annual increases on average by 4.2%. Thus, in 2024 is expected that total volume of exports to sum over 2 trillion dollars, a slightly lower share in the total trade of goods and services worldwide (5.2%).

Beyond the qualitative aspects of social, recent developments in international tourism as well as domestic tourism are the result of capital investment in the sector. So, capital investment in the tourism industry in 2013 amounted to 754.6 billion dollars, which means 4.4% of the world total. This year is expected an increase by 5.8% and for the next decade a high average rate of 5.1% per year. Thus, in ten years, the total investments in tourism could summarize more than 1,300 billion, its share in total investments being even higher (4.9%). In this context, there should be considered tourist destinations competitiveness and ability to concur on international tourism market. In this regard, the travel and tourism competitiveness index, developed by the World Economic Forum after 2008, it constitutes a representative indicator.

We propose in this paper to test correlations between components of tourism consumption (visitors exports and domestic tourism), the travel and tourism competitiveness index and capital investments in this industry. The specific hypotheses of research are: existence of a direct relationship between tourism consumption, on the one side and the tourism competitiveness and investment, on the other side, respectively between tourism competitiveness and investments. Paper structure is as follows: literature review, research methodology, results and discussion, conclusions.

LITERATURE REVIEW

Tourism investments, international tourist flows, tourism competitiveness, and also the relationships between them, were predominant themes of various researchers and international institutions. In the context of this paper, we propose a brief summary through the rich literature pointing out some representative studies.

Andergassen and Candela (2009) analyse the effects of tourism investments as a resort for local development for less developed countries. Phillips and Faulkner (2009) sustained the idea of tourism as a growth axis for many countries: „international tourism and investment trends point to rapidly expanding opportunities for poor communities and countries to pursue tourism for sustainable economic growth" (Phillips and Faulkner,2009). United Nations (2010) highlighted the main conditions for tourism investments: (1) Infrastructure and land – „Public investment in physical infrastructure (airports and roads etc.), information and communications technologies (ICT) and tourism infrastructure (attractions, heritage sites etc.) is needed if destinations are to stay competitive" (UN, 2010); „Land suitable for development is another factor fundamental to the growth of the tourism sector"; (2) Human resources – „The availability of qualified or trainable labour is an important precondition for many tourism projects"; (3) Investment incentives – „Policies to attract foreign investors often include various incentives" (UN, 2010). Awirya, Anitawati and Setyodewanti (n.d.) sustain the importance of investments in infrastructure - transportation, communication, and electricity. By developing the tourism infrastructure, the government intends to attract investors to invest in those areas; so the tourism sector will expand and it will increase the welfare for the local society […] tourism can give a multiplier effect, because it is related with other sectors such as handicrafts, hotels, restaurants, etc., and will open new work fields that also contribute for the national income (Awirya, Anitawati and Setyodewanti, n.d.). Phillips and Faulkner (2009) note that there are some barriers and/or critical factors for investments: insufficient information available to analyze opportunities, political stability, government support, legal and regulatory transparency.

Some researchers' analysis of domestic and inbound tourism related to the economic growth or local and national benefits (Kareem, 2008; Eijgelaar, Peeters and Piket, 2008); Mendiratta, 2011; Pierret, 2010). Kareem (2008) have examined the direction of causality between tourism-exports and economic growth and compare results for Africa with other regions. Xenias and Erdmann (2011) studied the economic impact of tourism as a largest service exports of United States of America. Eijgelaar, Peeters and Piket (2008) compare domestic visitor numbers to the international inbound and also to the outbound tourism, and sustain the importance of domestic tourism. Mendiratta (2011) highlighted some benefits of tourism promotion, including: (1) Seasonality: creation of year-round momentum of traveller activity, lessening the troughs in the seasonality curve, and enabling '365' industry operations; (2) Revenues: generation of significant revenues as domestic tourists keep their spending money within their home country; (3) Spread: dispersion of travellers across, and deeper into, the destination, stretching tourism activity and attractions beyond the main city centres; (4) Participation: increased employment of people of the destination in the tourism economy (both direct and indirect) as a result of increased, ongoing tourism activity; (5) Security: creation of a tourism culture across the destination (including understanding of the value of the tourism economy to national growth), which naturally creates a responsibility for tourist-protection within local communities; (6) Solidarity: generation of pride and ambassadorship for one's own country through understanding, experience and appreciation of all of its offerings (Mendiratta, 2011). UNWTO have also approached the theme of domestic tourism importance in economic growth, the executive director Pierret (2010) has pointed some characteristics of domestic tourism – (a) knowledge "in contrast to international tourists, domestic tourists know the destination, its language, its customs, its laws, its climate, its cultural context"(Pierret, 2010); (b) proximity of the destination - domestic destinations are nearer, and, as a consequence (c) lower cost of transport. Also, Pierret (2010) identify 5 types of impacts of tourism in economy and social life – domestic tourism is an excellent crisis shock-absorber, has a redistribution effect and various multiplier effects, also „it is an excellent instrument for easing social tensions[...]it can serve to launch a destination[...]makes it possible to amortize national spending on international tourism"(Pierret, 2010). Authors have some answers for "how to develop domestic tourism" question, including: diversifying, „Adapting accommodations to local demand[...]Expanding the demand […] Developing structures for activity organization and promotion at the regional/provincial level and at the local level (tourism offices)".

Measuring competitiveness of international tourist destinations made the object of many studies (Gooroochurn and Sugiyarto, 2005); Navickas and Malakauskaite, 2009; World Economic Forum, 2008, 2009, 2011, 2013), mostly focused to estabilsh an indicator for measuring, comparing and evaluating tourism competitiveness. Gooroochurn and Sugiyarto (2005) propose a model for measuring tourism competitiveness, including 8 indicators - price, openness, technology, infrastructure, human tourism, social development, environment and human resources. Navickas and Malakauskaite (2009) analysed some possibilities for evaluation of tourism sector competitiveness, and also proposed and configured own model. Firstly they adapted Dwyer and Kim (2003) model, grouping main factors of tourism destination competitiveness on three pillars: (1) Basic/additional resources and factors of tourist destination attractiveness, (2) The administration of tourist destination, and (3) Tourism market and quality of life-related CSD (Competitiveness and Sustainable Development) determinants. Navickas and Malakauskaite (2009) also note, citing Enright and Newton (2005), competitiveness factors of tourist destinations: (1) Tourism market-related/ specific factors – Architecture, History, Local people, Cultural peculiarities, Events (festivals, concerts, etc.), Museums and galleries, Concert halls and theatres, City nightlife; (2) Business environment-related/ general factors - Labour cost and skills, The level of retail sector development, The level of technological advancement, Strategies of local companies, Political stability, Anti-corruption policy, The level of educational system, Strong currency and steady prices. Finally, authors develop a "competitiveness monitor (CM) of tourist destinations", based on 8 categories of indicators - human tourism indicators, price competitiveness indicators, ecology (environment) related indicators, technological advancement indicators, technological advancement indicators, human resource indicators, market openness indicators, social development indicators. World Economic Forum proposed and developed the most known indicator to measure tourism competitiveness - The Travel & Tourism Competitiveness Index (4 editions – 2008, 2009, 2011, 2013). This is based on 3 sub-indexes, grouping 3 categories of variables – (A) T&T regulatory framework – 5 pillars, (B) business environment and infrastructure -5 pillars, (C) - human, cultural and natural resources – 4 pillars, and also 15th pillar – climate change, but last one is not included in index value due to difficulties and lack of statistical data.

RESEARCH METHODOLOGY

The research included the following steps: building database, empirical analysis, correlation coefficients calculation and their interpretation. Building the database involved using the following primary data sources: World Travel and Tourism Council reports and statistics, World Economic Forum reports. Data sets have been used in subsequent analysis: visitors' exports, domestic tourism, capital investments, the travel and tourism competitiveness index, respectively the share of tourism exports in total exports, and also the share of tourism investments in total investments. Indicators explanation, timeframe, and number of records are presented in the following table.

Table 1. Indicators explanation and recorded data

Indicator	Explanation	Primary data source	Records
The Travel & Tourism Competitiveness Index (TTCI)	Measure the factors and policies that make it attractive to develop the T&T sector in different countries, index 1 to 7	The Travel and Tourism Competitiveness Report 2013; Travel and Tourism Index Data Analyser [online]<http://www.weforum.org/issues/travel-and-tourism-competitiveness/ttci-platform>	130 (2008) 133 (2009) 139 (2011) 140 (2013)
Visitor Exports	Spending within a country by international tourists, US$, constant prices (2013)	World Travel & Tourism Council Reports; http://www.wttc.org/focus/research-for-action/economic-data-search-tool/	184 countries (2008, 2009, 2011, 2013)
Domestic Travel & Tourism Spending	Spending within a country by that country's residents US$, constant prices (2013)	World Travel & Tourism Council Reports; http://www.wttc.org/focus/research-for-action/economic-data-search-tool/	184 countries (2008, 2009, 2011, 2013)
Capital investment	Capital investment spending by all sectors directly involved in the Travel & Tourism industry	World Travel & Tourism Council; http://www.wttc.org/focus/research-for-action/economic-data-search-tool/	184 countries (2003-2013)
Visitor Exports	% all goods and services	World Travel & Tourism Council; http://www.wttc.org/focus/research-for-action/economic-impact-analysis/league-table-summary/	184 countries (2013)
Capital investment	% all fixed investment spending	World Travel & Tourism Council Reports; http://www.wttc.org/focus/research-for-action/economic-impact-analysis/league-table-summary/	184 countries

Source: by author

Using Microsoft Office Excel were calculated Pearson correlation coefficients following the formula:

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

, where the variables X and Y are, by turn

- X – the travel and tourism competitiveness index, Y – visitor exports, for 2008, 2009, 2011, 2013
- X – the travel and tourism competitiveness index, Y – domestic tourism, for 2008, 2009, 2011, 2013
- X – the travel and tourism competitiveness index, for 2008, 2009, 2011, 2013; Y – capital investments, associated series for five years (n-5), (n-4), (n-3), (n-2), (n-1), where n represents, in turn, 2008, 2009, 2011, 2013
- X – visitor exports, for 2008, 2009, 2011, 2013; Y – capital investments, associated series for five years (n-5), (n-4), (n-3), (n-2), (n-1), where n represents, in turn, 2008, 2009, 2011, 2013
- X – domestic tourism, for 2008, 2009, 2011, 2013; Y – capital investments, associated series for five years (n-5), (n-4), (n-3), (n-2), (n-1), where n represents, in turn, 2008, 2009, 2011, 2013

The total number of countries whose data were included in the final analysis was 120**.** Interpretation of results followed: analysis of correlations between indicators, respectively the comparative analysis, static and dynamic, of correlation coefficients for pairs of variables: TTCI (the travel and tourism competitiveness index) – visitor exports, TTCI– domestic tourism, ICT – capital investments, respectively capital investments – visitor exports, capital investments – domestic tourism, and finally, the conclusions of the research.

RESULTS AND DISCUSSION

World Travel and Tourism Council has assessed direct contribution of tourism to 2.1554 trillion dollars (2,9% of GDP), while the total contribution, which includes in addition to the direct contribution the indirect and induced contribution, amounted at 6.9903 trillion dollars in 2013 (9.5% of world GDP). Tourism revenues of a country consist by international tourism receipts (outbound tourism = visitor exports) and expenditures of tourist residents in their country (domestic tourism).

Visitor exports have a significant share in the total exports of many countries, and the whole world economy, in the context that export of services amounted to 19% worldwide, 28% of those being tourism services. *More than half of all service exports are generated by Travel & Tourism in France, Colombia, Turkey, Mexico, South Africa, Montenegro, Peru, Thailand, Jamaica, and the UAE (WTTC, 2013).*

Table 2. Visitor exports, 2013

Absolute terms	**2013 constant US $bn**	**Relative terms**	**% of total GDP**
United States	190.1	Anguilla	89.2
Spain	62.0	Macau	84.4
France	56.0	Maldives	83.9
China	52.2	Cape Verde	76.7
Germany	47.3	Antigua and Barbuda	76.1

Source: by author, based on WTTC reports

At the absolute level, the United States has the highest receipts, more than the sum of revenues of the following three countries - Spain, France and China. Top 5 countries top is completed by a third European country, Germany. On the other hand, at absolute level, specializing in tourism of some countries determined shares up to 75% of tourism services in their total GDP.

From a second source of income from tourism activity, in the ranking of absolute expenditures we rediscover three of the countries mentioned above: United States of America, UK and France.

However, notable are Chinese and Japanese tourists spending on their countries, which signals a new pole of tourism on the world map. In relative terms, stands out Kiribati, whose residents expenditures for domestic tourism generate 16.5% of the country's GDP. Also mention the share of 6.7% of GDP of British citizens spending on domestic tourist services, especially due high absolute value ($ 172.7 billion)

Table 3. Domestic spending, 2013

Absolute terms	**2013 constant US $bn**	**Relative terms**	**% of total GDP**
United States	751.8	Kiribati	16.5
China	523.7	Lesotho	9.1
Japan	203.1	Mexico	7.8
United Kingdom	172.7	Honduras	7.2
France	135.5	Namibia	7.1

Source: by author, based on WTTC reports

Trade and investment follow each other (WTTC, 2013). By its nature, tourism has a privileged relationship with investments, even two-way: tourism needs investment, especially in infrastructure, and investments are retrieved in a higher rate as a result of the multiplier effect of tourism.

Table 4. Capital investments, 2013

Absolute terms	2013 constant US $bn	Relative terms	% of total GDP
United States	145.7	Macau	42.4
China	117.0	US Virgin Islands	40.5
Japan	35.2	Antigua and Barbuda	37.4
India	33.1	Fiji	30.3
Germany	25.6	Aruba	30.2

Source: by author, based on WTTC reports

In absolute values, we find the United States on the first position, followed by Asian countries – China, Japan and India, Germany being the only European country in the top 5. However, investment in this sector in the United States and China are to a level superior than other countries. In relative terms, we find significant share of over 30% and even 40% of investments in tourism in countries that have become and want to become world famous destinations.

In terms of travel and tourism competitiveness index, according to the latest report of World Economic Forum, from 2013, the highest value is recorded by Switzerland, the following positions being occupied by countries from Europe, Germany (5.39), Austria (5.39), Spain (5.38) and the UK (5.38), with almost same values of TTCI. Among the top 10 positions, the United States is the first non-European country, and Singapore distinguishes from Asia, being ranked 10th. In fact, 13 of the top 20 countries are European, confirming the status of the main tourist destination of this continent.

Table 5. The travel and tourism competitiveness index, 2013

Rank	Country	TTCI	Rank	Country	TTCI
1	Switzerland	5,66	**11**	Australia	5,17
2	Germany	5,39	**12**	New Zealand	5,17
3	Austria	5,39	**13**	Holland	5,14
4	Spain	5,38	**14**	Japan	5,13
5	UK	5,38	**15**	Hong Kong	5,11
6	USA	5,32	**16**	Island	5,10
7	France	5,31	**17**	Finland	5,10
8	Canada	5,28	**18**	Belgium	5,04
9	Sweden	5,24	**19**	Ireland	5,01
10	Singapore	5,23	**20**	Portugal	5,01

Source: by author, based on The Travel and Tourism Competitiveness Report 2013, WEF

Compared to the previous report, if the first two positions remained unchanged, France had a significant decrease of 4 positions, from 3rd to 7th, its place being taken by Austria. If UK had a favourable evolution, climbing two places, a loss of relative competitiveness was registered by Sweden (a 4 positions drop, from 5th to 9th), while the only Asian country in the top 10, Singapore, has maintained its position (10th).

Correlation between investments, visitor exports, domestic tourism and competitiveness. Starting from the premise that tourism is dependent on investment and tourism destination competitiveness, there have been calculated, in turn, correlation coefficients between different variables, as it was specified in the research methodology.

The first data series tested were between tourism competitiveness index (variable 1), on the one hand, and Domestic Travel and Visitor Exports, on the other hand (variable 2). Results for 2008, 2009, 2011 and 2013 are presented in the following table.

Table 6. Pearson correlation coefficients (TTCI - Domestic Tourism, TTCI- Visitor Exports)

Variable 1	Variable 2	2008	2009	2011	2013
TTCI	Domestic tourism	0.288	0.301	0.294	0.287
TTCI	Visitor exports	0.463	0.493	0.482	0.474

Source: by author, using Excel software

Regarding the correlation between TTCI and Domestic Travel, there is a direct relationship, but characterized by low intensity. However, the values for the correlation coefficients between TTCI and Visitor exports is close to 0.5, which indicates a direct and low to moderate intensity. In both cases, the high value of the Person coefficient was recorded in 2009, but not significantly different values for the 4 years.

The second set of tests involved correlation between investments and TTCI, Domestic Travel & Tourism Spending and Visitor Exports. The results show a weak relationship between investment and tourism competitiveness, and strong between investment and Domestic Travel & Tourism Spending, respectively investment and Domestic Travel & Tourism Spending. Detailed results are presented in the following tables.

Table 7. Pearson correlation coefficients (TTCI - Investments)

Person Coef.		Investments									
TTCI	Years	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	2008	**0.335**	0.319	0.315	0.272	0.25					
	2009		**0.33**	0.326	0.289	0.269	0.267				
	2011				0.294	0.274	0.272	0.267	**0.301**		
	2013						0.274	0.269	0.303	**0.306**	0.29

Source: by author, using Excel software

Regarding the relationship between competitiveness and investment, there are found the following:

(a) Between TCCI recorded in 2008 and investments from 2003-2007 period there is a direct correlation, characterized by a medium to low intensity, highest value being recorded at 5 years lag.

(b) Between TCCI recorded in 2009 and investments from 2004-2008 period there is a direct correlation, characterized by a medium to low intensity, highest value being recorded at 5 years lag.

(c) Between TCCI recorded in 2011 and investments from 2006-2010 period there is a direct correlation, characterized by a medium to low intensity, highest value being recorded at 1 year lag.

(d) Between TCCI recorded in 2013 and investments from 2008-2012 period there is a direct correlation, characterized by a medium to low intensity, highest value being recorded at 2 years lag.

(e) Comparative, statistical connection between competitiveness and investment decreased slightly, with revival in 2013, but the differences are not significant.

Table 8. Pearson correlation coefficients (Domestic Tourism - Investments)

Person Coef.		Investments									
Domestic tourism	ears	003	004	005	006	007	008	009	010	011	012
	008	.977	.978	.980	.985	.974					
	009		.963	.974	.987	.98	.973				
	011				.99	.984	.978	.971	.976		
	013						.982	.979	.98	.978	.979

Source: by author, using Excel software

Regarding the relationship between Domestic Travel & Tourism Spending and investment, there are found the following:

(a) Between Domestic tourism recorded in 2008 and investments from 2003-2007 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 2 years lag, but the differences are not significant.

(b) Between Domestic tourism recorded in 2009 and investments from 2004-2008 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 3 years lag, but the differences are not significant.

(c) Between Domestic tourism recorded in 2011 and investments from 2006-2010 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 4 years lag, but the differences are not significant.

(d) Between Domestic tourism recorded in 2013 and investments from 2008-2012 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 5 years lag, but the differences are not significant.

(e) Comparative, statistical connection between Domestic tourism and investment decreased slightly, with revival in 2013, but the differences are not significant.

Table 9. Pearson correlation coefficients (Visitor Exports- Investments)

Person Coef.		Investments									
Visitor Exports	Years	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	2008	0.920	0.934	0.917	0.896	0.874					
	2009		0.918	0.905	0.887	0.864	0.863				
	2011				0.884	0.859	0.86	0.84	0.861		
	2013						0.850	0.825	0.848	0.834	0.827

Source: by author, using Excel software

Regarding the relationship between visitor exports and investment, there are found the following:

(a) Between Visitor Exports recorded in 2008 and investments from 2003-2007 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 4 years lag, but the differences are not significant.

(b) Between Visitor Exports recorded in 2009 and investments from 2004-2008 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 5 years lag, but the differences are not significant.

(c) Between Visitor Exports recorded in 2011 and investments from 2006-2010 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 5 years lag, but the differences are not significant.

(d) Between Visitor Exports recorded in 2013 and investments from 2008-2012 period there is a direct correlation, characterized by a very high intensity, highest value being recorded at 5 years lag, but the differences are not significant.

(e) Comparative, statistical connection between Visitor Exports and investments declined in the period analysed.

CONCLUSIONS

Considering how the highest values for investments and tourism exports are recorded by advanced economies and top positions in share standings are occupied by emerging and developing countries, we can confirm that tourism is a major component in the global economy and at the same time a crucial sector upon which economies of countries with high tourism potential rely on. Furthermore, the countries that have high tourism competitiveness are those with a long tradition in tourism and / or that are recognized as being competitive in the world market of goods and services as a whole.

Regarding the correlations between the variables analysed, we can draw the following conclusions: (i) tourism competitiveness is in a much stronger relationship with exports than the domestic tourism; (ii) Instead, the link between tourism and investment competitiveness is much lower than the link between volume of investments and tourist spending - domestic tourism and exports; (iii) there is a very strong connection between investment and domestic tourism, and between investment and tourism exports, Pearson coefficient was slightly higher for first variables.

Therefore it is confirmed the hypothesis that there is strong direct connection between investment and tourism expenditure volume, a mild intensity direct connection between competitiveness and tourism exports volume, and between capital investment in tourism and tourism competitiveness. The tourism competitiveness is a factor that influences tourism exports more than domestic tourism; in this regard the relationship can be two-way - Tourism receipts also contribute to improving and enhancing the competitiveness of tourism destinations. Moreover, according to the results, investments support the competitiveness as much. An almost perfect direct link between investment and the expenditures - of residents and visitors, suggests the importance of investment in tourism development

Although the method used does not establish the connection, specific tourism activity and significance of analysed variables can lead to the following statements: tourism competitiveness is more of a factor for attracting foreign tourists, and investment in tourism enhances tourist consumption. However, concerning the time for investment to influence the volume of tourism expenditure, from the analysis undertaken there is no major differences for 1 to 5 years' timeframe, so that the analysis during a period of several years can be a direction of future research. In order to eliminate a limit of research about the relationship dependent variable – independent variable can use methods such as multiple regressions. Moreover, a clustering by region and stage of economic development would provide more feasible information.

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Perceptions Of Professional Accountants On The Costs And Benefits Of Implementing Ias/Ifrs In Romania

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Abstract: - This study aims to investigate the perceptions of professional accountants on the costs, benefits and implications of applying IFRS in Romania. The main results show that the benefits of implementing IFRS is ensuring greater transparency and comparability of financial information. In terms of costs, most respondents felt that the main costs is related to staff training, this being one of the factors that have caused difficulties in implementing IFRS. Regarding the quality of financial information after the adoption of standards, we conclude that it will improve considerably.

Key-Words: - International Financial Reporting Standards, benefits, costs, implications, professional accountants

1. Introduction

The alignment with International Financial Reporting Standards (IFRS) is largely due to organization. The impact of globalization is illustrated by the increasing number of multinational companies, economic integration as measured by the development of trade and relations between countries.

Therefore, globalization has led to a single accounting language IASB responded to this need by issuing IFRS (Albu et al., 2011)[1]. In addition to a natural phenomenon of alignment with IFRS met a many countries due to the need to maintain competitiveness in international markets in emerging countries has shown the need to improve the accounting system and IFRS were considered a model.

In Romania, as in other emerging countries, both the World Bank and FMI had a strong influence in the implementation of IAS/IFRS, by promoting them as a role models.

Thus, if the entities listed on regulated markets in the European Union must prepare consolidated financial statements in conformity with International Financial Reporting Standards since 2005 in Romania first experiences with IFRS took place immediately after 2000, rather as a process of convergence EU accession led to the issuance OMFP no. 1121/2006 where by companies whose securities are admitted to trading on a regulated market and which consolidated financial statements are obliged since 2007 to apply International Financial Reporting Standards (Petre and Lazăr, 2012)[2]. Recently, standardizes of Romania has decided to extend the scope of IFRS by issuing Order no.881/2012.

Under this law, companies whose securities are admitted to trading on a regulated market are required to apply IFRS in individual annual financial statements as of financial year 2012.

Since IFRS is based primarily on Anglo-Saxon traditions, their application in countries with different traditions can lead to different results. Moreover, emerging countries may seem less prepared to apply IFRS. Albu et al (2011)[3] show that the problem of implementing IFRS is quite complex and many aspects need to be considered when assessing the implementation of IFRS: Romanian accounting system characteristics, its historical perspective, characteristics and attitudes of Romanian companies, users of financial statements and expectations ant not finally, the features of Romanian accounting profession. In this regard, although there is a

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growing literature on the application of IFRS in Romania, complexity leads to the need for basic research conducted in various theoretical and methodological perspectives.

The purpose of this step, is to identify the cost-benefit of implementing IFRS in Romania and to identify the problems encountered in the transition from OMFP no.3055/2009 to International Financial Reporting Standards.

1.1. Benefits resulting from the application of IFRS

Applying IFRS is an activity with a high level of complexity, which requires the existence of solid professional knowledge in the field, but also an understanding of the problems of an accounting[4]. Of course, analysis of the implementation process, both at the country and the entity is limited to comparing costs and benefits. The need to document empirically the existence or lack of benefits of IFRS adoption is all the more important in countries where the implementation of International Accounting Standards was decided on political considerations more than a business requirement[5].

Some authors have wondered why some emerging countries decide to adopt international standards, despite the various obstacles and difficulties encountered during the process.

The answer is given in terms of advantages and benefits that come along with decision: increasing the comparability and the transparency of financial information, harmonization of internal and external reporting under IFRS, creating a common accounting language or reducing information asymmetry (Păşcan & Turcaş, 2012)[6]. It has been shown by studies that increase market liquidity at the time of implementation of international standards, along with appreciation of shares and reducing the cost of capital (Ionașcu et al., 2011)[7]. In a study by Ramana and Sletten (2011), they emphasized the ”network effect”. They noted that some countries have adopted IFRS rules if their trading partners and countries within their geographical region have adopted. Thus, is improves the perception of the benefits of adopting IFRS, starting at reducing transaction costs and continuum to increase the use of financial statements by foreign users (Ionașcu et al, 2011).

A study conducted on entities in Greece on the adoption of IFRS, showed that 91,7% of respondents demonstrated that financial statements prepared in accordance with IFRS users are more credible than in accordance with their national rules, and 70,8% were agreed that the implementation of IFRS increase comparability of financial information. Furthermore, 58,3% believe that high quality financial reporting will facilitate access to international markets and 41,7% claim to have easier to resort to external financing (Ballas et al, 2010)[8].

In Romania, the implementation of IFRS has not been seen from the beginning as bringing many opportunities, but on the contrary. An illustrative example is the statement of CFO; where asked the advantages of adopting IAS/IFRS, it said ”there is no advantage, just an obligation” (Ionașcu et al., 2007)[9]. But gradually, the business realize the benefits of IFRS, although scepticism still exists.

Albu C. and Albu N (2012)[10] believes that the reasons for adopting IFRS in Romania and the expected benefits are normally expressed in more general terms and refers to economic development.

In a study conducted in 2007 by Ionașcu et al., almost all companies have considered that the adoption of IAS/IFRS leads to better communication in the capital market, providing more relevant information to investors, and half agreed that the implementation opportunity arises accessing international financial markets. In another study conducted three years later, the same authors concluded that there is a statistical argument to

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support the IFRS induced a better financial communication, which led to the economic advantage of a lower cost of capital for Romanian companies listed.

Following research has shown that the benefits of adopting IFRS depend largely on the motivations underlying their application, and the local context in which they are applied (Ionașcu et al., 2011). Also Dănescu and Spătăcean (2011)[11] states that the implementation of IFRS will stimulate companies to improve the quality of financial reporting for stakeholders by strengthening competitive position in terms of access to global financing cost.

Ionașcu et al., (2011) investigated the views of CFO of companies listed on the Bucharest Stock Exchange 78,4% of respondents indicated that IFRS have generated greater international comparability; 86,5% felt that information obtained by IFRS are relevant to investors; 56,8% indicated that IFRS provides a good source of information for making economic decisions managers; 40,5%said that IFRS allow access to foreign financial markets; and 13,5% indicated that international standards provides access to funding sources with a lower cost.

In another study (Gîrbină et al., 2012)[12] suggests that the adoption of IFRS has a positive impact on the level of transparency of listed companies (especially banks), the amount of information disclosed is higher.

1.2. The costs associated with the adoption of IFRS

IFRS implementation involves costs. Otherwise, the first study undertaken to investigate these issues was of 2005 (Ionașcu et al., 2007).

Questionnaires were sent to the entities listed on the Bucharest Stock Exchange, the answers are the following: the main costs were those with training of staff (94,7%), adjustment systems (65,85), calling consultants (65,8%) and double reporting (23,7%).

The cost of implementing IFRS in Romania is considered to be lower in other countries as a result of partial adoption of standards. As stated Ristea et al.,(2010)[13], some researchers have noted that investors are no costs involved in understanding and interpreting financial statements of foreign entities and the adoption of uniform standards significantly reduce these costs and increase investments in foreign capital markets.

In a study by Albu C. and Albu N (2012) observed that those additional maintenance costs up to three reporting systems (compliance with national regulations, IFRS and tax) and increased audit costs have been concern for those who prepare such financial statements. Those interviewed were of the opinion that, in general, IFRS implementation costs will outweigh the benefits in the next two or three years after the implementation of these standards. It is believed, however, that long term benefits will outweigh the costs, however, because IFRS reporting becomes a routine process embedded in culture.

Also, there are some limitation or difficulties in implementing IFRS. Many authors argue that these standards are too complex and expensive or that will adversely effect the relevant financial reporting (Pășcan and Țurcaș, 2012). Dănescu and Spătăcean (2011) identified some negative aspects in the financial reporting process specific financial investment companies from the research they performed. Thus, among the difficulties found are:

- some portfolio companies, which are in the scope of consolidation, apply IFRS;
- using different policies within the group that generated significant differences in evaluation structure of financial statements;
- mandatory compliance deadline of four month from the balance sheet date for presentation of consolidate financial statements in conformity with IFRS, has made it impossible restatement of financial statements of companies in the consolidation.

Some researchers say that several factors such as the economic, political or cultural, can influence the adoption and implementation of IFRS in a certain country and this will affect the comparability between countries (Pășcan and Țurcaș,2012). This is the case of Romania which is characterised as having low quality

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regulations, the existence of a law accounting for most entities, a stock exchange underdeveloped preference for financing through banks and tax reporting practices oriented (Albu C. and Albu N, 2012).

At the same conclusions, opposite the difficulty of applying these standards have reached Albu et al. (2011) in a study of the problems encountered in the implementation of IAS/IFRS in Romania. The authors consider that Romania cannot be regarded as a country that successfully apply IFRS, but the one that shows a certain resistance to change. The obstacles encountered are usually importance of taxation, lack of educational trainings and resources.

As states Ionașcu et al (2011), the Romanian economic environment is characterized by a number of specific institutional factors such as weak stock market capitalization and low quality, funding predominantly banking entities and the quality of corporate governance, which can influence the quality of financial reporting based on IFRS and lead to differences in the application of IFRS in Romania compared to other countries.

In a study by Pășcan and Țurcaș (2012) on listed companies in Romania, it was observed that the application for the first time IFRS differs from one entity to another. In some cases the adoption of IFRS resulted in slight increase or decrease in net income in the consolidated financial statements. There differences may be caused by size entities, for their field or on the adoption of IFRS-mandatory or optional.

1.3. Implication of adopting IFRS

The literature found several studies with conflicting results regarding the effects of adopting IFRS. For example, a study of Greece (Ballas et al., 2010), concluded that the introduction of international standards to improve the quality of accounting information of Greek companies. Another study, based on 327 companies in 21 countries that have adopted IAS/IFRS in 1999-2003 examined the relation between those standards and the quality of financial reporting. The companies applying IFRS financial information communicated by a higher quality than those that apply to national standards (Barth et al., 2008)[14]. Also, companies that have implemented IAS/IFRS, financial reporting quality has improved considerably since the adoption of standards in the preparation and publication of financial statements.

Zeghal and Mhedhabi (2012)[15] analyzed the association between the use of IAS/IFRS and development of capital markets in emerging countries. The study was conducted on a sample of 38 developing countries found that adopted IASB standards.

As in the other two studies, the implementation of IFRS has improved the quality of financial statements of listed companies and to motivate investors to trade more.

A study of the different results of the above is that of Dennis Taylor (2009)[16]. It examined the effects of IFRS adoption on the quality of accounting information of listed companies in the UK, Hong Kong and Singapore. In the study, the author argues that there is little information to conclude that the financial statements comply with IFRS bring more value to those prepared under GAAP, regardless of the level of harmonization of accounting standards in a country. The question of Pilcher and Dean (2009)[17] ”IFRS reporting adds value to management or local government?” Answer, based on interviews with various executives of Australian council seems to be negative.

2. Research Methodology

This study aims to investigate the perceptions of professional accountants on the costs, benefits and implications of applying IFRS in Romania, use professional accountants perceptions has been used in other studies, such as Ionașcu et al. (2007) and Ionașcu et al. (2011). Data was collected through questionnaire and processed using Excel.

[14] Barth, M., Landsman, W., Lang, M. -„International Accounting Standards and Accounting Quality”, *Journal of Accounting Research*, vol. 46, nr. 3/2008

[15] Zeghal, D., Mhedhbi, K. - „Analyzing the effect of using international accounting standards on the development of emerging capital markets”, *International Journal of Accounting and Information Management*, vol. 20, nr. 3/2012, pp. 220-237

[16] Taylor D. - „Costs-benefits of adoption of IFRS in countries with different harmonisations histories”, *Asian review of Accounting*, vol. 17, nr. 1/2009, pp. 40-58

[17] Pilcher, R., Dean, G. -„Implementing IFRS in local government: value adding or additional pain?”, *Qualitative research in Accounting & Management*, vol. 6, nr. 3/2009, pp. 180-196

The sample is formed, mostly of young professional accountants education, knowledge and skills in IFRS. It is known that the emerging young professional accountants have better knowledge in IFRS and therefore a better understanding of the phenomenon analyzed. The number of completed questionnaires received is 52, a number considered acceptable, given that, for example, the sample of Ionașcu et al (2011) consists of 37 respondents. The questionnaire had a total of 14 closed questions, of which 3 were type choice single answer, multiple choice may 3 type hierarchy and 3 type rating on a Likert scale. Were included questions about respondents' profile (for example, their age range) and questions to answer particular objective, focusing on three areas of investigation as:

- investigate the costs required to implement IFRS in Romania;
- investigate the benefits of implementing IFRS in Romania;
- analyze the implications of the decision will be applying IFRS.

3. Analysis of results

Before analyzing the costs, benefits and implications of the application of international financial reporting standards in the country of our adventure, we wanted to find out what is considered to be the main reasons that led to the decision of implementing IFRS in Romania. The results are summarized in the following table:

Table no.1

	Frequency	Percentages
Requirements	42	81%
Request of shareholders	29	56%
Access to external financing	31	60%

From the responses we found that 71% of respondents believe that the decision of implementing IFRS has not spent a single reason. Thus, it is easy to see that the reason is given legal requirements, 81% of respondents believing that legal obligations underlying the increased scope of application of IFRS in Romania.

Given that, since 2012 credit institution are required to apply IFRS in individual accounts and entities regulated and supervised by CNVM to prepare another set of financial statements in conformity with IFRS for information purposes, we can say that indeed, the legal requirements had a significant impact on entities. Another reason considered by 60% of respondents, was access to foreign funding, and 56% were of opinion that shareholders demand influenced this decision.

Our result correlates with the results of a study conducted by Ionașcu et al. So in 2007, they assumed and the study confirmed that the majority of listed companies began to apply IAS/IFRS only after they became mandatory, and few companies applying IAS/IFRS (10,5%) before one were to obtain external financing.

Another study by Manolescu et al. (2009)[18] showed that companies prepare financial statements in conformity with IFRS, in particular because they are required by banks/lenders (50%) or shareholder (47%).

How entail additional costs for implementing IFRS is a set of standards and complex, are considered particularly suited for large entities. However, many countries have imposed smaller entities applying IFRS in order to improve the accounting system (www.iasplus.com).

Thus, we investigated the perception of respondents about entities should apply IFRS mandatory, depending on their size.

According to Table no.2, 100% of respondents believe that large enterprises (1000 employees or more) should apply IFRS mandatory 90% believe that large companies (250-999 employees) should apply IFRS, and 3% believes that all business must apply these standards.

[18] Manolescu, M., Morariu, A., Roman, A.G, Mocanu, M. -„Priorities and responsibilities in the extension of the International Financial Reporting Standards (IFRS) in Romania", *Financial Audit Journal*, No. 8/2009, pp. 21-27

Table no.2

	Frequency	Percentages
Small entities	3	6%
Medium-sized entities	25	48%
Large entities	47	90%
Very large entities	52	100%

Therefore, it is noted that even in Romania some respondents believe that IFRS improved accounting information and may impact on economic development entities and may be applicable to medium-sized entities.

Previous studies show that the financial statements under IFRS are generally audited, especially if listed entities, the Big Four we investigated whether young professional accountants believe that financial statements prepared under IFRS should be audited by the Big Four multinationals or not:

Table no.3

	Frequency	Percentages
Yes	20	38%
No	32	62%

Only 38% of respondents believe that financial statements should be audited by the Big Four, 62% believing that they can be audited by other audit firms, a result that contrasts with other studies on the subject. Thus, some studies have shown the importance of audit firms in accordance with the IFRS and this is evidenced by the degree to which they are involved in working with their clients, assisting them in understanding the complex standards and the establishment of accounting systems that can prepare financial statements in conformity with IFRS (Hodgon et al., 2009)[19].

Previous studies have shown that local auditors are very concerned about keeping customers and are therefore seen as less independent. The people involved in the accounting of the Big Four firms considered more independent than local firms audit. For example, the Czech Republic, large companies were audited by Big Four were tested before implementation and application of IFRS have received support from their auditors, while auditors were local entities that have not had any help (Albu C. and Albu N., 2011)[20].

In a study by Houqe et al (2012)[21] which was based companies in 46 countries, it was intended that the proportion of firms audited by Big Four increases with the adoption of IFRS.

Research has shown that firms located in countries with strong governments that have adopted IFRS, are more willing to hire auditors from Big Four auditors than other audit firms.

3.1. The benefits of implementing IFRS in Romania

The first direction that I went to meet the objective of this study was to investigate the benefits of implementing IFRS in Romania. Thus, in Table no.4, we summarized the main benefits:

Table no.4

The benefits of implementing IFRS in Romania

	Total	Rank
Ensuring comparability of information	133	1
Reducing information asymmetry	180	5
Increased transparency of financial	138	2

[19] Hodgdon, C., Tondkar, R.H., Adhikari, A., Harless, D.W. -„Compliance with International Financial Reporting Standards and auditor choice: New evidence on the importance of the statutory audit", *The International Journal of Accounting 44/2009*, pp. 33-55

[20] Albu, C., Albu, N., Fekete Pali-Pista, S., Cuzdriorean Vladu, D. (b)- „The power and the glory of Big 4: A research note on independence and competence in the context of IFRS implementation", *Accounting and Management Information Systems*, vol. 10, nr. 1/2011, pp. 43-54

[21] Houqe, M.N., Monem, R.M., van Zijl, T. -"Government quality, auditor choice and adoption of IFRS: A cross country analysis", *Advances in Accounting, incorporating Advances in International Accounting 28/2012*, pp. 307-316

information		
Lowering the cost of capital	169	4
Attracting foreign investment	159	3

Those who responded to our questionnaire thought that the most important benefit due to implementation of international financial reporting standards is given to ensuring comparability of information (1), both nationally and internationally.

Then comes the increased transparency of financial information (2) attracting foreign investment (3), lower cost of capital (4) and reducing information asymmetry (5).

Our results confirm those of the 2010 KPMG[22] survey, which registered as main reporting better financial benefits in terms of transparency and comparability with other companies or between different periods.

However, Cole et al. (2011)[23] argue that comparability of financial statements may be just an illusion, because national accounting traditions and cultural differences can still cause differences in the application of IFRS.

To emphasize this fact, the author conducted a study to find out to what extent auditors, analysts and other users of financial statements believe that they are comparable IFRS. Thus, only 41% of respondents believe that the financial statements are comparable. The more experienced they are, the view that IFRS financial statements cannot be considered comparable. We also analyzed to what extent the implementation of IFRS would be beneficial relations with different users.

KPMG survey in 2010 showed that IFRS financial statements are relevant primarily to shareholders and then to management, potential investors and various lenders (banks).

According to the answer received by us, application of IFRS would be most beneficial to potential investors (mean = 3,48%), and for shareholders and creditors (Table no.5).

Table no.5

Relevant stakeholders

	Average	Median	Standard deviation
Relationship with potential investors	3,48	4	0,67
Relation with shareholders	3,27	3	0,66
Relation with creditors	3,12	3	0,68

3.2. The cost of applying IFRS in Romania

The study tried to capture the costs and difficulties can encounter companies that are or are forced to adopt International Financial Reporting Standards.

Table No.6

	Frequency	Percentages
Training of personnel	48	92%
Design template related financial statements	22	42%
Acquisition/modification programs	39	75%
Appealing to consultants	32	62%

Thus, most respondents felt that the main cost is borne by entities with staff training (1) he has no experience with IFRS. The second is the cost of purchasing software new or modifying existing (2). Follow costs due to the need to resort to see (3) for guidance on the application of IFRS and the last is considered by 42% of respondents are costs associated with designing layouts Financial Statements (4). The same results were

[22] KPMG - „Survey on the application of IFRS in Romania” , 2010

[23] Cole, V., Branson, J., Breesch, D. -„The illusion of comparable IFRS financial statements. Beliefs of auditors, analysts and other users”, *Accounting and Management Information Systems*, vol. 10, nr. 2/2011, pp. 106-134

also Ionașcu et al (2007) first recorded the whole staff training costs (94,7%), followed by adjustment systems (71,1%) and those due dialling consultants (65,8%).

We then asked respondents as factors that may cause difficulties in the implementation of IFRS in Romania. Responses were measured on a scale from 1-4, where the note (1) is granted all important factors, and note (5) very important factors.

In Table no.7 we present the average, median and standard deviation for each of the six factors. The media is the biggest factor that is considered most likely to generate obstacles to the application of IFRS.

Table No.7

	Average	**Median**	**Standard deviation**
Lack of staff training	3,31	3	0,81
Link between accounting and taxation	3,27	3	0,72
IFRS based on principles	2,83	3	0,76
System inadequate	2,81	3	1,01
Tradition existing account	2,44	2	0,92
Cost-benefit	3,06	3	0,75

It appears that the most important factor that can cause difficulties is here given by (1) lack of staff training. Follow (2) the link between accounting and taxation (3), the cost-benefit (4) IFRS based on principles (5) inadequate computer system and (6) the existing accounting tradition.

In the study by KPMG (2010) ranked first found the knowledge and technical skills of the staff accountant.

Considering that respondents placed great emphasis on the lack of staff training, we wondered who would be the source form which they would call if they have difficulty in applying IFRS. According to Table no.8, the response was as follows: 69% would turn to consultants in the field, 65% would turn to national accounting rules and 42% would seek help auditors.

Table No.8

Source that would call if it happens difficulties

	Frequency	**Percentages**
Relevant legislation	34	65%
Consultants	36	69%
Auditors	22	42%

The results are different from those presented by KPMG study (2010), where the first is the auditors, 74% of respondents calling of them when applying IFRS complex or face new situations of financial reporting, and only 9% were turn to external consultants. This might be explained by the fact that respondents consider calling auditors could jeopardize outlined in the university. Relationship between audit firms competence in implementing IFRS and independence is complex as shown in other studies (Albu et al 2011). We can also appreciate that the report is perceived differently by professional employees with experience in applying IFRS (pragmatic aspect) to young professionals (side ideal utopian).

3.3. The implications of the decisions of applying IFRS

Decision applying IFRS consolidated financial statements as both, especially in the individual has many implications, but we wanted to find out what the implications of this decision on the quality of information to users.

Table No.9

Implications of IFRS implementation on the quality of information

	Frequency	Percentages
Improving the quality information to a great extent	38	73%
Improving quality of information to a lesser extent	8	15%
Cannot assess the impact on the quality of information	6	12%

Most respondents, namely 73%, considered that the application of IFRS separate financial statements will improve to a great extent the quality of financial information, 15% felt that the quality will improve only to a limited extent and only 12% responded that it cannot assess the impact of this decision. Much research has been done on the subject, Ballas et al (2010), are just a few of the authors who have come to the same conclusions as us, namely that the implementation of IFRS will lead indeed to an increase in the quality of information to the users.

4. Conclusions

Our study aimed to identify which were the benefits, costs and implications of implementing International Reporting Standards in Romania.

As shown by the literature, the analysis results, the main benefits of implementing IFRS is ensuring greater transparency and comparability of financial information. Most respondents believe that the application of IFRS would be beneficial primarily for potential investors, and for shareholders and creditors, given that IFRS rules can create economic advantage of a better information environment for companies.

Professional accountants believe that among the costs of adopting IFRS in Romania include those related to staff training (92%), followed by the acquisition or modification of computer programs (75%), calling consultants (62%), and the last place are costs related statements financial and design templates (42%).

Although IFRS standards are considered high-quality accounting standards, there are certain limitations that could affect the quality of the information provided.

Thus, our results showed that the main factors that cause difficulties in implementation were lack of staff training and the link between accounting and taxation.

Another issue discussed by us in this study was about Big Four audit financial statements under IFRS. Most respondents were of the opinion that there must be audited by Big Four (62%), which proves the contrary of previous research. Note that the respondents who made this assessment are young professional accountants.

Although there are obstacles and costs inherent in the application of IFRS in Romania, our respondents agreed, a fairly large proportion (73%) the application of IFRS financial statements will improve to a great extent the quality of financial information.

To ensure full implementation of International Financial Reporting Standards, managers should not only see the adoption of IFRS as a simple accounting exercise. Thus, depending in how to implement these standards, we can evaluate the success of their application, which influence the information content of financial statements.

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Major projects that influence world trade

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Abstract: - In 1869, with the opening of the Suez Canal, world trade entered a new era of development. The commercial routes linking the Far East to the western countries were shortened considerably as compared to the maritime corridor around the Cape of Good Hope. In 1914, the opening of the Panama Canal sealed the new deal in world trade, opening for business the shortest commercial routes around the world. After 145 years from the inauguration of the Suez Canal, world trade is on the eve of a new expansion. Two major projects: the expansion of both the Suez and Panama canals, planned to be completed in the next two years, will double their transit capacity. This paper does a comparative analysis of these two strategic projects, underlining the main benefits for Egypt, Panama and world trade, based on the available statistical data, reports and literature in the field.

Key-Words: - Panama, canal, Suez, trade, project, growth, management, extension, TEU.

1. Introduction

The Suez Canal and the Panama Canal were two of the greatest financial, technological and logistical projects of their time, both originating in France in the 19th Century, Paris being the capital of world engineering during that time.

According to UNCTAD (2012) “The maritime transport is the backbone of international trade and a key engine driving globalization. Around 80 per cent of global trade by volume and over 70 per cent by value is carried by sea and is handled by ports worldwide; these shares are even higher in the case of most developing countries.”

During the French occupation of Egypt, Napoleon Bonaparte had the idea of opening a canal between the Red Sea and the Mediterranean Sea. His initiative came to life in 1854 when Ferdinand Lesseps was granted the right to dig a canal across the Isthmus of Suez. The project planning finished in 1856. The Suez Canal Company was established in December 1858 (its stock owned chiefly by French and Egyptian interests[1]) and in April 1859 the project started its operations. The excavations took almost 11 years and involved over 1,5 million people, registering a death toll of thousands of workers. During its execution the British Empire opposed the project that now accounts for almost 8-10% of world trade volume, probably because they were not involved in it, but, as soon as they had the chance, they bought Egypt`s shares in 1875. The Suez Canal shortened the distance between the Port of Constantza and the Port of Doha by 7950 nautical miles, the route around the Cape of Good Hope being 12001 nautical miles long and the one through the Suez Canal, 4051 nautical miles[2]. The Cost of the Canal was over 3,3 billion, in 2014 dollars.

Table 1. Shipping on the Suez Canal, 1870-1895

Year	Ships	Tons
1870	486	436.609
1875	1.494	2.009.984
1880	2.026	3.037.422
1885	3.624	6.890.094

[1] http://www.suezcanal.gov.eg/sc.aspx?show=8
[2] http://www.sea-distances.org/

1890	3.389	6.890.094
1895	3.434	8.448.383

Source: Daniel Headerick, Tools of Empire, Oxford: NY. 1981.

The Suez Canal is 60 meters wide and its daily traffic is about 50 ships, due to the fact that the vessels travel in one way convoys, thus, the ones coming from the opposite direction have to wait in designated areas for their turn. At present up to 10% of the seaborne trade passes through the Suez Canal, the toll fees reaching over $5 billion in the last three years.

Table. 2. Detailed yearly statistical Report

Month	**Vessels**	**Net Ton (1000)**	**Cargo Ton (1000)**	**Tolls $ million**
2006	18.664	742.708	628.635	3.815,8
2007	20.384	848.162	710.098	4.601,8
2008	21.415	910.059	722,984	5.381,7
2009	17.228	734.450	559.245	4.289,5
2010	17.993	846.390	646.064	4.768.8
2011	17.799	928.879	691.800	5.222.7
2012	17.224	928.472	739.911	5.129.7
2013	16.596	915.467	754.461	5.110,8

Source: Suez Canal Traffic Statistics, 2014. Data compiled by the author.

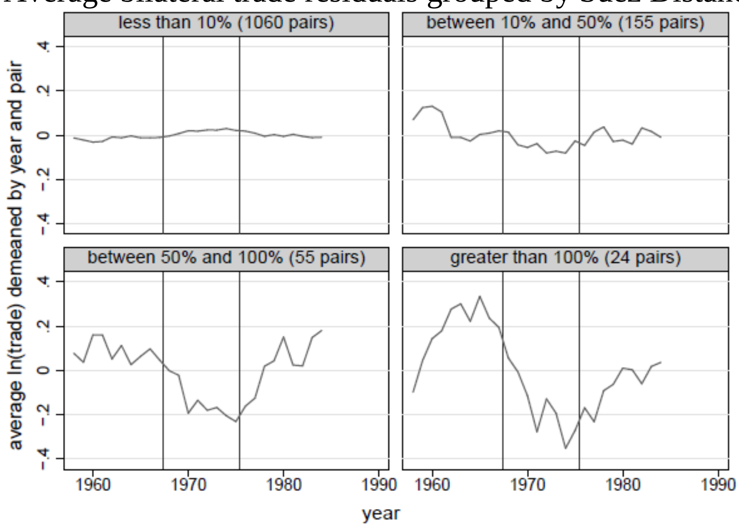
A report from R.K. Johns & Associates Inc. (2005) forecasts that the Suez Authority might raise tolls by 2015, estimating a 5% increase.

The Canal had a strategic importance for the British Empire, and France, enabling a quick route to their colonies. From 1936 until 1954-56, when it was nationalized, London maintained a defensive force along the Suez Canal Zone.

James Feyrer (2009) did an analysis on the influence of the Canal's closure (1967-1975) on international trade flows, taking into account the increase in the distance between the trading partners. He identified a clear drop in trade for the partners, registering distance increases of more than 10 percent and also noticed that it took several years for the partners to reach again the level of trade before the closing.

Feyrer's analysis proves the importance of the Suez Canal for world trade.

Figure 1. Average bilateral trade residuals grouped by Suez Distance Increase



Source: James Feyrer (2009).

The Panama Canal was the first big project of the 20st Century that laid the foundation of modern project management. The main beneficiary of the Canal was the United States of America, which funded its construction for a strategic reason, mainly to ensure an easy transit between the Atlantic and the Pacific Oceans for the American Navy, and then for the transportation of oil from the West Coast to the East Coast. The total cost of the Canal in 2014 dollars was over $8.3 billion. The main advantage to world trade consists of shorter sailing distances. The distance from the Port of Los Angeles to the Port of New Jersey via the Cape Horne is 12788 nautical miles and through the Panama Canal it is 4930 nautical miles. Initiatives to dig a canal in Panama existed before. After the great success of finalizing the Suez Canal, with support from the French authorities, Ferdinand Lesseps, engaged in a new adventure trying to build the Panama Canal. His endeavor took seven years, from 1882 to 1889 and was never finalized due to bad project management (poor environment analysis, bad planning, wrong technical solutions, high mortality among the workers etc.). After the State of Panama became independent, in exchange for a one-time payment of $10 million, the U.S. were granted the rights to a Canal Zone of twenty-mile wide to build the Panama Canal. The project started in 1904 and was completed in 1914, before the start of the Great War. Panama benefited very little from the canal`s spillovers (only the U.S. payments made for the Canal Zone, and the decline in the incidence of malaria in the two major cities). John Stevens, the second project manager of the Panama Canal, who was appointed by Theodore Roosevelt himself, was the first manager that had a clear image on how to build the Canal. He used the work break down structure (WBS), in order to divide the project in smaller, manageable activities, so that people feel confident they can complete it. The last project manager of the project was George Washington Goethals, an engineer and a military man (major in the U.S. Army Corps). He was the one who finished the project and became the first governor of the Canal Zone. The Suez Canal project cost the lives of 30.000 people, including the ones lost during French attempt (25.000).

In 1939, Arnold Wilson (1939) made a comparison between the two canals: "The Suez Canal was opened to traffic in 1869, the Panama Canal in 1914. The Suez Canal is owned and controlled by a commercial company, incorporated and domiciled in Egypt, subject to Egyptian laws and customs, under a concession from the territorial government, confirmed by Turkey as Suzerain Power. The Panama Canal is owned and controlled by the United States Government, who constructed it and maintain it, in virtue of a series of international treaties; it is subject to American Law. The Suez Canal is 100 miles long, the Panama Canal 50 miles long. One is at sea level, the other rises by three locks at each end to 85 feet above sea level. The former cost £30 million to build, the latter £75 million".

Table 3. Relevant data on both canals

Project	*Country*	*Year of Completion*	*Project duration*	*Length km*
Suez Canal	*Egypt*	*1869*	*11*	*164*
Panama Canal	*Panama*	*1914*	*22*	*77,1*

Source: Terra et Aqua/Number 120/September 2010.

On December 31, 1999, after 85 years of American administration, the Panama Canal became a corporate entity of the Panamanian government. The Panama Canal accounts for about 4% of the nation's GDP, but its multiplier effect, amplify it up to 30% (employees` expenditures, schools, restaurants, hotels, various services and industries inked to it etc.)

2. The need for developing the maritime infrastructure

According to UN (2012) experts, in the last four decades maritime trade increased on average by "3.1 per cent per year, reaching an estimated 8.4 billion tons in 2010. At this pace, and assuming no major upheaval in the world economy, global seaborne trade is expected to increase by 36 per cent in 2020 and to double by 2033. While bulk trade accounts for the largest share of global seaborne trade by volume, the containerized cargo contribution grew more than threefold between 1985 and 2010."

Niesten and Reid (2014) argue that there is an increasing demand for canal services. They emphasize that "investment of $600 million in container handling facilities at both ends of the canal indicates strong expectations that the canal will play an important role in the rapidly growing container shipping segment."

Rodrigue and Notteboom (2011) argue that by 2014, post-Panamax vessels are expected to account for 48% of the global container fleet capacity (post-Panamax vessels are bigger than the ones allowed to travel through the Panama Canal). The same UNCTAD report [7] points put that at present, “the container ship order book is dominated by post-Panamax ships, which account for 92 per cent of the container-carrying capacity on order”.

Table. 4 Development in international seaborne trade, selected years (millions of tones loaded)

Year	Oil and gas	Main bulks[a]	Other dry cargo	Total (all cargoes)
1970	1 440	448	717	2 605
1980	1 871	608	1 225	3 704
1990	1 755	988	1 265	4 008
2000	2 163	1 295	2 526	5 984
2005	2 422	1 709	2 978	7 109
2006	2 698	1 814	3 188	7 700
2007	2 747	1 953	3 334	8 034
2008	2 742	2 065	3 422	8 229
2009	2 642	2 085	3 131	7 858
2010	2 772	2 335	3 302	8 409
2011	2 794	2 486	3 505	8 784
2012	2 836	2 665	3 664	9 165

Source: UNCTAD, Review of Maritime Transport 2013.

UNCTAD figures for 2013 [6] show an increase in the seaborne trade by 4.3%, (9,2 billion tons in 2012, the biggest increase ever).

2.1. Great powers` needs

This year, the Chinese president Xi Jinping invited Egypt to join the Silk Road Economic Belt on both land and sea. The Chinese strategic project aims to boost economic relations between the Far East and the Western Countries involving in this initiative the Central Asian countries, rich in natural resources, and the other states along the old Silk Road.

Figure 2. The Silk Road Economic Belt

Source: Xinhua, 2014

The Maritime Silk Road begins in East China and heads to the Malacca Strait, Malaysia, Bangladesh, Sri Lanka, India, crosses the Indian Ocean, towards Kenya, continues north along the Horn of Africa and enters the Red Sea through the Gulf of Aden, reaches Egypt and enters the Mediterranean Sea through the Suez Canal and the Mediterranean Sea to Greece and then crosses the Adriatic sea to Venice in Italy and connects to the land route. China and other Asian countries are interested in diversifying their sources of food and to do so, they are targeting the Eastern European markets which don't capitalize their huge agricultural potential lacking investments and proper organization of the field. The Eastern European countries could start exporting grains and meat through the ports at the Black Sea, and then the commercial routes to the Mediterranean Sea and the Suez Canal.

P. R. Kumaraswamy (2004) says that "nearly 70 percent of China`s trade is carried by sea through the Strait of Malacca, the Indian Ocean and the Suez Canal."

The surge in transpacific trade form Asia, chiefly China had a beneficial effect on the Panama Canal especially in the first half of the 2000s, due to the fact that the American land bridge didn`t have the capacity to handle the expected cargo volumes.

The LNG tankers (post-Panamax) can`t travel through the Panama Canal. The distance to ship American LNG from the gas terminals located in the Gulf of Mexico to Asia is at present around 16000 nautical miles, 7000 miles longer than the distance through the Panama Canal. The extension of the Panama Canal will allow the U.S. exporters to be competitive on the Asian energy market, especially in Japan, South Korea and China.

3. The new projects to meet the world trade needs

3.1. The Suez Canal expansion

On the 5th August 2014, Egypt`s president Abdel Fattah al-Sisi, announced the construction of the New Suez Canal, as a first phase of a strategic project, the Suez Canal Corridor, aimed at transforming the region into a global economic hub, by investing in the next 20 years between $20-100 billion. The announcement followed the visit to Cairo of the Chinese Foreign Minister Wang Yi who conveyed Beijing`s support for Egypt`s economic development and Xi Jinping`s invitation for Egypt to join the Silk Road Economic Belt and 21st Century Maritime Silk Road. Yi reiterated the Chinese interest to invest in the Suez Economic and Trade Cooperation Zone and also cooperate with Egypt in various fields (agriculture, energy, highways, tunnels, aerospace and satellite technologies).

Ahmed Farouk Ghoneim (2014) argues that in the first phase of the project, Port Said and the Suez ports will be transformed into global warehouses. All the required infrastructure will be put in position (roads, railways, navigation management, related industrial projects etc.). The next day after Sisi`s speech, a team of 7,500 workers begun the excavations of a new canal of 35 kilometers, from the Mediterranean Sea to the Bitter Lakes which will flow parallel to the original Canal. In the south of the lakes the project will double the width of the Suez Canal along its 37 kilometers. The Egyptian Government entrusted the project to Dar Al-Handasah, a Saudi company specialized in planning, project management and supervision consultancy and to other companies from several Gulf Cooperation Council. The Saudi company will work with other contractors (52 companies and about 15000 workers) and the Egyptian Army to develop the industrial infrastructure and logistics in the canal area. From this standpoint, the new project is similar to the original Panama Canal, which was completed under the command of an American major, as we mentioned above.

The cost of this phase is estimated at $8,4 billion. To finance it, the Egyptian Authorities issued debt certificates denominated in Egyptian pounds, bearing 12% interest only for the Egyptians in the country and debt certificates in dollars for the Egyptians living abroad, bearing 3,5% interest. The certificates were sold through Banque Misr, the National Bank of Egypt, Banque Du Caire and the Suez Canal Bank. Suez Canal Insurance bought debt certificates worth EGP 10 million. The expansion of the Suez Canal is expected to boost the tolls up to 13,5% by 2023.

The second phase, will focus on developing the industrial infrastructure of the Canal Zone (production of machinery, ship repair centers, packaging factories, textiles etc.) and the logistics infrastructure (seaports in Port Said, Ismailia, Port Tawfiq, Suez, Nuweiba in Sinai and the development of the airport in Sharm al-Sheikh). Under the enlarged Canal, six tunnels will be built. At least two will be railway tunnels and the rest will be designated for road and highway traffic. The estimated cost of phase two is $8 billion. The building of the tunnels aims at developing the links with Sinai Peninsula, which is underdeveloped, but rich in natural resources.

Phase three plans to transform the Canal Zone (especially Ismailia) and the Sinai Peninsula into a modern industrial, technological and research area. The third phase will also focus on the development of tourism, trade and communications.

A lot of rich countries (United States, China, India, Russia, Holland, Norway, Denmark, Saudi Arabia, United Arab Emirates, Kuwait etc.) want to invest in this projects.

3.2. The Panama Canal expansion

The extension of the Panama Canal, was approved by the National assembly of the State of Panama on July 17, 2007. The project started on September 2007 at an estimate total cost of US$5.2 billion and the work began in August 2009. This megaproject is the largest infrastructure project since 1914 and aims at: constructing a new canal with larger locks at each end that can accommodate post-Panamax vessels; widening and deepening each entrance of the original Canal and widening and deepening the navigation channel at Gatun Lake. The final objective of the project is to increase the tolls by means of increasing the transit of larger ships through the Canal. Larger locks and channels will allow the passage of vessels double the size of the one transiting now. The new Canal will allow more ships to pass daily doubling the total annual throughput capacity of the Canal. The Panama Canal serves now over 140 maritime trade routes to over 80 countries. About five percent of global maritime cargo transits the Panama Canal every year.

Through the expansion of the Canal, the Republic of Panama will consolidate its position as a major transportation and logistics hub in the Americas.

In the next 20 years, the trade volumes carried through the Panama Canal will grow around 3% per year, doubling the tonnage by 2025 as compared with 2005.

Informa Economics (2011) indicates that the transit of grain and soybeans from the Midwest of the U.S. to the Asian countries, through the Panama Canal will increase by 30% reaching 48.4 million metric tons by 2021. At present around 40 million of metric tons of grains are exported to Asia via the Canal.

The expansion of the Canal will lead to an increase in the trade between the West Coast of America and Asia and the Eastern countries from South America, (Colombia, Venezuela and Brazil) favoring their exports of coal, iron ore and other natural resources.

New York/ New Jersey metropolitan area’s economy is preparing for the completion of the New Canal. The authorities spend billions of dollars to dredge the shipping berths to accommodate larger vessels; invest hundreds of millions in cranes to handle bigger containers and in infrastructure (access roads, raising the Bayonne Bridge to allow more clearance for larger ships). The port rail carrier serving the port area invests billions for improving dockside rail and support infrastructure (raising the roofs of tunnels for the double stack trains that will transport goods delivered to the port).

According to The Economist (2014), China Harbor Engineering Company, will build a new port on the Goat Islands, 30km west of Kingston to accommodate new-Panamax vessels. Brazil and Cuba developed the port of Mariel, west of Havana, The port has been dredged to 18 m and was opened for business this January.

The main advantages of the Panama Canal are:

1. The route through the Cape Horne is longer (8000 nautical miles) and more perilous, making the maritime insurance very expensive;
2. Navigation time is shorter and cheaper.

The route from Shanghai to New York through the Panama Canal takes up to 26 days, and the one via the Suez Canal up to 28 days. From the Port of Los Angeles over the land bridge (railway) it takes up to 21 days at an extra cost of $600 per container, which is more expensive than the transit through the Panama Canal.

The ensure the money required to complete the works, the Panama Canal Authority signed contracts with the Japan Bank for International Cooperation ($800 million), the European Investment Bank ($ 500 million), the Inter-American Development Bank ($400 million), the International Finance Corporation ($300 million) and Corporación Andina de Fomento ($300 million).

So far, the project created approximately 30.000 jobs.

According to the Panama Canal Authority, the works at the Canal are executed by a consortium of companies from Europe (Sacyr Vallehermoso SA - Spain, Impregilo S.p.A. and Cimolai – Italy, Jan de Nul n.v. – Belgium), Tetra Tech- the U.S., and a local company, Constructora Urbana S.A.

A report of the Regional Economic Studies Institute (2012) analyzed the regional impacts of the Panama Canal expansion on the Port of Baltimore (U.S.). They estimated that an increase in the containerized cargo by 25 percent will have the following effects:

1. About 138 new jobs will be created;
2. An increase in the state`s GDP by $39.8 million;
3. An increase in wages by $13,8 million;
4. An increase in the taxes revenues (state`s and local) by $2,1 million.

According to the Panama Canal Annual Report (2013), "the waterway is a crucial channel for world commodities, affecting directly the GDP of several exporting nations. In 2012, 10.6 percent of global maritime grain transport transited the Canal, as did 5.8 percent of the chemical products, and 4.7 percent of the containerized cargo."

Table 5. Maritime Trade Volume Transiting the Canal (percentage of total metric tons)

	2006	2007	2008	2009	2010	2011	2012
Containerized cargo	6,7	6,5	6,2	6,0	5,3	5,1	4,7
Grains	12,4	9,8	9,7	12,6	1,9	10,3	10,6
Oil and derivatives	1,3	1,3	1,3	1,4	1,3	1,3	1,3
Coal and Coke	0,7	0,9	1,5	0,9	1,1	1,5	1,3
Mineral and Metals	1,5	1,1	2,3	3,0	2,7	2,8	1,8
Chemical products	8,5	7,4	7,4	7,7	6,6	6,2	5,8

Source: Panama Canal Annual Report 2013

The expansion project will double the traffic in the Canal and will contribute to the development of other linked economic activities: hospitality, merchant marine registry, banking, warehouses, legal services, communications etc.).

The annual Report (Canal de Panama, 2013) emphasizes that "the Canal, the port terminals, the Colon Free Zone, and Tocumen International Airport complement each other's strengths. In short, the Canal is the main driver within the logistics cluster, and in turn, the cluster strengthens the Canal's position as an optimal transit option. This cross-sector synergy has a multiplier effect and increases the country's overall competitiveness, and that of other countries in the region which can use Panama as a hub."

Table 6. Relevant data on both canals

Extension Project	*Cost \$ billion*	*Year of Completion*	*Duration (Years)*	*World seaborne Transit (%)*
Suez	*5,2*	*2015*	*1*	*5-6%*
Panama	*4*	*2016*	*9*	*7,5-8%*

Source: data compiled by the author

Table 7. Comparisons for a round trip Hong Kong to New York-New Jersey via Panama and Suez canals

Indicators	Panama	Suez
Size of ship	4.800 TEU	8000 TEU
Cost	$1,250/TEU	$850/TEU
Transit times	8-10 hrs.	12-16 hrs.
Tolls on a fully loaded 4.800 TEU container ship	$450.000	$489.600
Non-Stop transit time at 18 knots	26 days	27 days
Distance	11.205 nautical	11.589 nautical

Indicators	Panama	Suez
	miles	miles

Source: data compiled by the author

The container transit from Asia through the Suez Canal to the east coast of the U.S. East Coast has surpassed the Panama Canal for the first time this year (Suez 52%, and Panama Canal 48%) according to estimates by Drewry cited by Ian Lewis (2014), as a result of the cost savings registered by almost doubling the loads on larger vessels and the rise in Panama`s tolls.

4. Conclusion

Considering the trends in world trade now, the projects undertaken by Egypt and Panama are more than welcome. The expansion will double the volumes of goods transiting Suez and Panama canals and will decrease the associated costs of transportation due to the fact that bigger vessels will be allowed to pass through. The transit times will also improve ensuring the traffic fluidity. As we presented, big infrastructure projects are planned to be developed around the canals. Egypt will invest tens of billions of dollars to create the biggest commercial, industrial, technological and urban hub in the area. Due to the strategic locations of both canals many economic powers are willing to invest their money in order to have a seat at the future`s table. China will invest in the Suez Economic and Trade Cooperation Zone and intends to further cooperate with Egypt in various areas such as: agriculture, energy, transport infrastructure etc. In Jamaica, China built a port to accommodate new-Panamax vessels. The same thing happens in the United States of America which invest in the East Coast ports creating thus new jobs and business opportunities and developing the infrastructure all vectors of economic growth. We shouldn`t forget about the multiplier effect on the economy of these projects. Even if the contribution of the Panama Canal to the country`s GDP is of about 4%, the multiplier effect generated by the economic activities of the entities related to it increases it to 30% of the GDP.

President Abdel Fattah al-Sisi learned from the history of the Panama Canal and entrusted Egypt`s biggest infrastructure project of the 21st Century to a consortium of companies led by the Egyptian Army to make sure that nobody resigns from the job and the tasks are completed as planned. This is a good lesson of project management, to learn from past mistakes.

The two canals have the supremacy at present, but there is another Chinese project in the making which could rival both. The billionaire Wang Jing plans to build the Nicaraguan Canal, the largest infrastructure project of our times in terms of difficulty, scale, resources and impact on the world trade and world economy. The Canal will be around 278 kilometers long and will accommodate vessels with loaded displacement of 400.000 tons. Its estimated cost is around $50 billion. This project will definitely have a great impact on the canals surveyed in our paper.

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Eu Type Of Austerity: Brief Analysis And Criticism

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Abstract: - Although it has become a common place to blame austerity policies for lengthening the economic downturn of EU economies, the figures reveal that public spending increased in most of the EU countries between 2007 and 2013. Although budget deficits from EU countries were indeed reduced in the last 4 years, the cutbacks were more the result of increasing government revenues and hiking taxes than of decreasing public expenditures. The article will feature: (1) a brief analysis of the evolution of public spending compared to government revenues in EU countries and also, (2) a concise literature review on austerity, highlighting some of the most important theoretical controversies on this topic. The main thesis defended in the article is that – although EU type of austerity, narrowly focusing on fiscal consolidation, drove indeed to unfavorable economic consequences – the criticism formulated by pro stimulus economists is rather flimsy, given the fact that public expenditures actually increased in most of the EU countries.

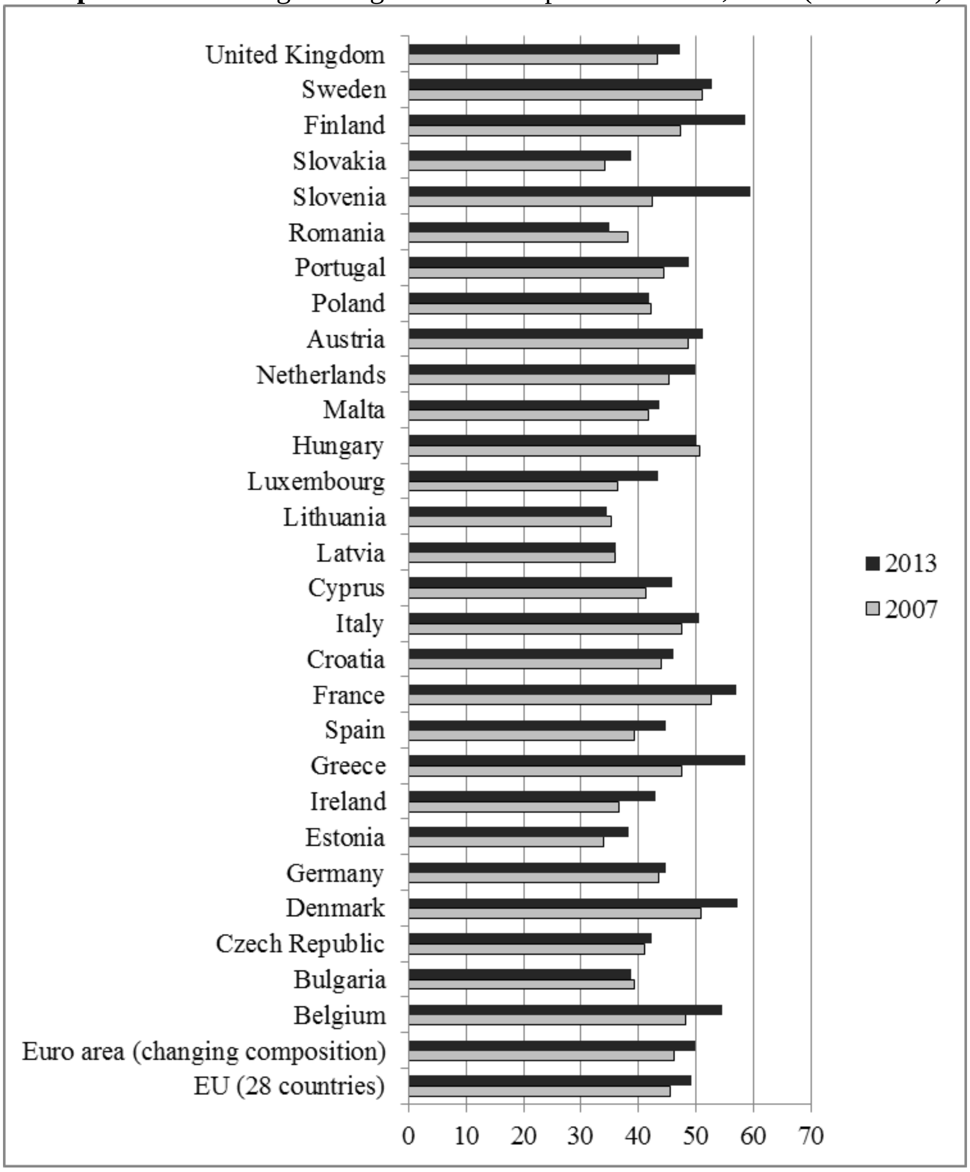
Key-Words: - austerity, EU economies, public spending, government revenues, taxes, budget deficit, economic crisis, fiscal stimulus

1. Austerity in EU Countries: Brief Analysis

Although austerity policies are blamed for lengthening the economic downturn of EU economies, a graph of public spending in the EU countries (**Graphic 1**), published this year (August 18) on the website of European Commission reveals that government spending is significantly higher in 2013 than before the 2008 financial crisis in most of the EU countries, especially in Eurozone and GIIPS countries.

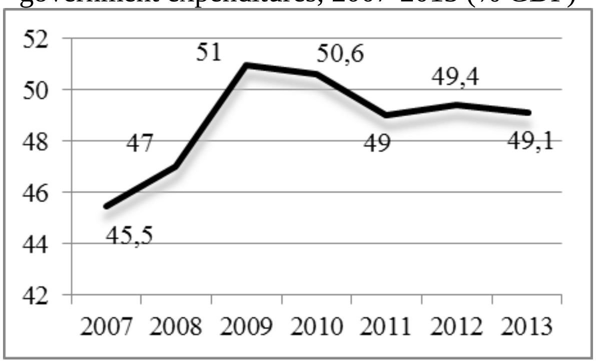
An analysis of EU public spending-to-GDP ratio discloses that total general government expenditure in the EU reached 49.0% of GDP, averaging 12,617 euro per person in 2013. Also, the public expenditure-to-GDP ratio increased by 3.5 percentage points between 2007 and 2013, amounting to 6.41 trillion of euro in 2013 (**Graphic 4**). The evolution of governments' spending over this period reveals that between 2007 and 2009, EU public expenditure-to-GDP ratio increased exceeding 50 percent, then decreased slightly to 49% between 2009 and 2013 (**Graphic 2**). Therefore, the increase of public spending in EU between 2007 and 2013 was not perfectly linear, but still the trend of public spending remained ascendant during this time.

Graphic 1- EU total general government expenditure 2007, 2013 (% of GDP)



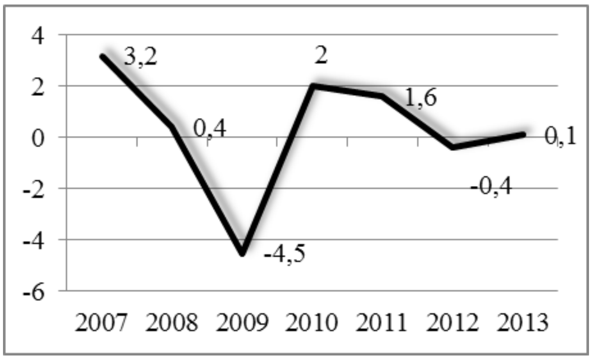
Source: Eurostat, 2014

Graphic 2 - EU 28 total general government expenditures, 2007-2013 (% GDP)



Source: Eurostat, 2014

Graphic 3 - EU 28 GDP growth (%)

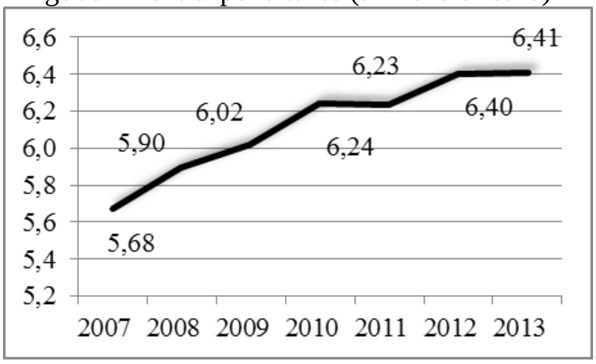


Source: Eurostat, 2014

Public expenditure-to-GDP ratio differs greatly across the EU countries: in some of the member states, governments' expenditures accounts for more than 54% of GDP, while in other states the proportion is between 34% and 39%. However, most of the EU states (23 of 28) spent more in 2013 than before the economic crisis of 2008. For example, in Italy, the government spent 47.6 percent of GDP in 2007 and 50.6 percent of GDP in 2013; in Spain, government expenditures reached 39.2 percent of GDP in 2007 and 44.8 percent of GDP in 2013; Greece's government spent 47.5 percent of GDP in 2007 and 58.5 percent of GDP in 2013; in Portugal, government spending increased from 44.4 percent of GDP in 2007 to 48.6 percent of GDP in 2013; in Ireland government spent 36.7 percent of GDP in 2007 and 42.9 percent of GDP in 2013 etc. Public expenditure-to-GDP-ratio decreased in 2013 compared to 2007 in 5 countries only: Bulgaria, Hungary, Lithuania, Poland and Romania (**Graphic 1**).

Recent Eurostat data reflects what some of the critics of EU model of austerity pointed out already, namely that real austerity measures (i.e. cutting of government spending) were not implemented in most of the EU countries. Martin Masse (2013) – associate researcher at Institut économique Molinari in Paris – noted that although it was almost universally taken for granted that austerity measures adopted in Europe have meant drastic spending cuts combined with some tax increases, actually government spending has risen in the EU as a whole most of the time, since the beginning of the financial crisis (**Graphic 4**).

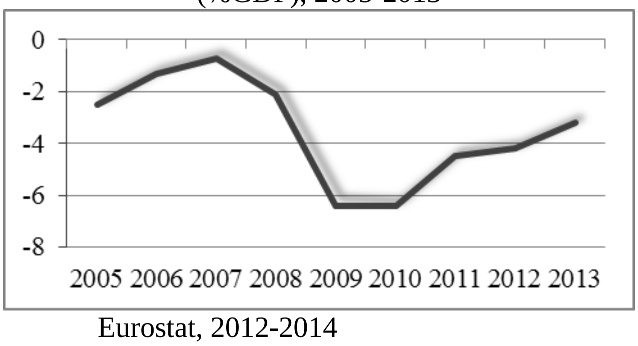
Graphic 4 - EU 28 total general government expenditures (trillions of euro)



Source: Eurostat, 2014

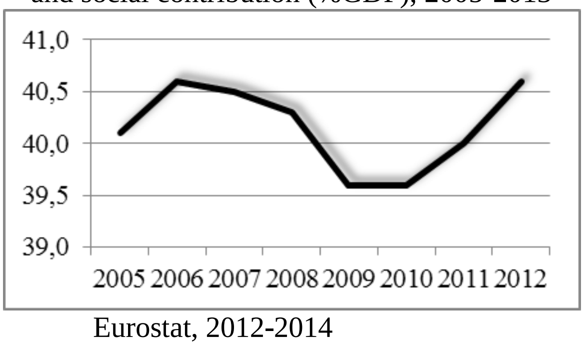
Statistics indicating that government deficit has gone down was commonly set forth as evidence of the austerity measures implemented in EU countries. General government deficits decreased indeed in EU between 2010 and 2013 (**Graphic 5**), but deficits can be reduced not only by spending cuts, but also by increasing revenue (e.g. increasing taxes) more than increasing spending.

Graphic 5 – EU government deficit (%GDP), 2005-2013



Eurostat, 2012-2014

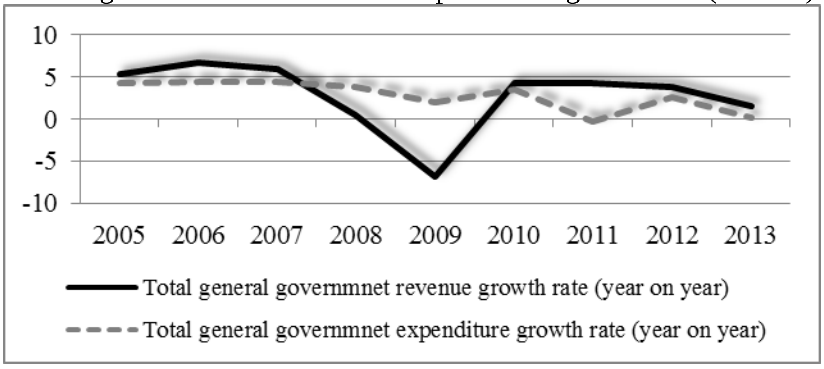
Graphic 6 – EU total receipts from taxes and social contribution (%GDP), 2005-2013



Eurostat, 2012-2014

This is exactly what happened in most of EU countries: when government revenues fell faster than expenditures, the deficits increased (2008-2009); also when government revenues have gone up faster than public spending the deficit decreased (**Graphic 7**).

Graphic 7 - EU General government revenues and expenditures growth rate (% YoY)

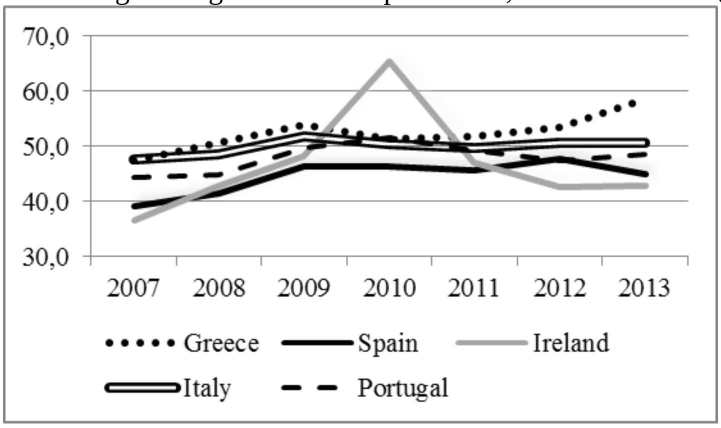


Source: Author's calculations based on Eurostat data, 2014

Therefore, Martin Masse rightly emphasized that almost whenever governments announced budget cuts, they were actually referring not to absolute reductions in total expenditures but simply to spending increases that were lower than previously planned or to cuts of expenditures for some budget lines that were offset by higher budgetary spending elsewhere (Masse, 2013).

Also, Georg Erber (2013) from German Institute for Economic Research (Berlin) pointed out that while official story is that GIIPS countries have been devastated by cutbacks in public spending during last years, the figures shows a different picture. GIIPS countries increased massively public spending between 2000 and 2008; then, between 2008 and 2014, although the upward trend of public expenditure was not perfectly linear, nevertheless it was maintained (**Graphic 7**).

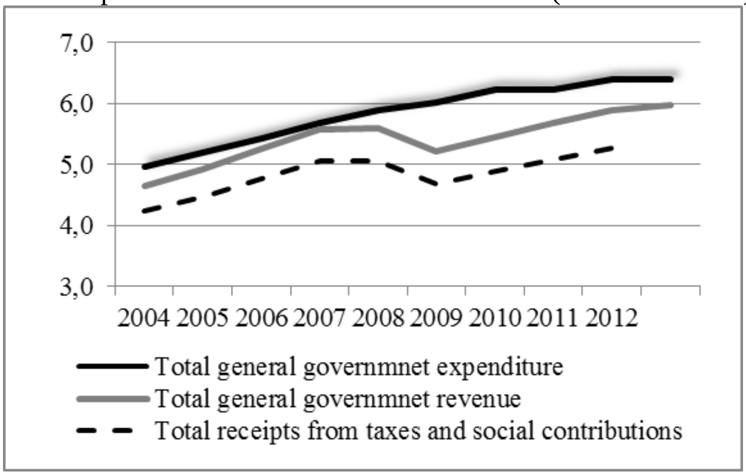
Graphic 7 - Total general government expenditures, GIIPS countries (% GDP)



Source: Eurostat, 2014

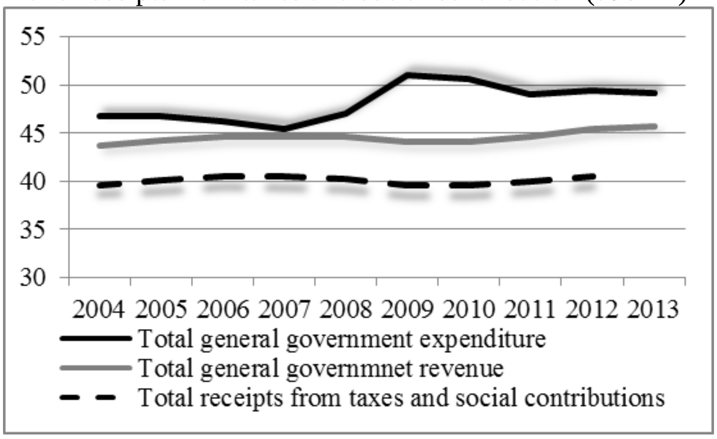
It should be noted that between 2004 and 2013 the evolution of public spending in the EU countries was strongly influenced by business cycle's boom and bust phases. During the phase of economic expansion, both governments' revenues and public spending went up considerably in most of EU member states. Then, after the financial crisis hit EU economies in 2008-2009, total receipts from taxes and social contributions and total governments' revenues decreased, but the upward trend of government revenue was soon resumed in 2009-2010. Between 2010 and 2011 governments' expenditures decreased slightly but not as much as governments' revenues collapsed in 2009, given the economic downturn that followed the 2008 crisis. However, the trend of public spending remained ascendant across EU as a whole between 2004 and 2013 and also between 2007 and 2013 (**Graphic 9 & 10**). Therefore, the decrease of public spending that some of the EU countries experienced between 2009 and 2011 is not so much the result of EU governments' effort to reduce spending (if any at all) as the consequence of economic downturn that followed 2008 crisis. Household incomes decreased in the context of crisis (given the increase of unemployment, bankruptcies etc.). Consequently, total receipts from taxes and social contribution and total government revenues decreased as well. Public expenditures did not decrease at all in most of the countries or they did not shrink as much as EU economies collapsed. Between 2010 and 2013 budgets deficits decreased across EU as a whole, but this was mainly the result of an increase of total receipts from taxes and not so much the outcome of public spending cuts (**Graphic 5&6**). Most of EU countries increased some taxes as part of their austerity programs (value-added taxes, real estate taxes etc.). This means that the entire burden of governments' deficits reduction in EU was carried out mostly by taxpayers and private sector.

Graphic 9 - Government expenditure, government revenue, and receipts from taxes and social contribution (trillions of euro)



Source: Eurostat, 2014

Graphic 10 - Government expenditure, government revenue, and receipts from taxes and social contribution (%GDP)



Source: Eurostat, 2014

In summary, the policies enforced by most of the EU member states, inspired by IMF-ECB neoliberal view focused narrowly on fiscal consolidation, entailing tax increases, heavy regulation of markets and preserving a quite important role of state in economy. Although EU officials announced in 2009-2010 important cuts in public expenditures, such policies were not really implemented. Even though budget deficits were reduced between 2010 and 2013 this outcome was achieved in most EU countries by increasing taxes more than reducing governments' expenditures. Also, even if some spending cuts were applied, in most cases, these did not lead to absolute reductions in total governments' expenditures.

2. Theoretical Perspectives on Austerity and Fiscal Stimulus

Austerity policies were fiercely criticized by Keynesian and neo-Keynesian economists, like Paul Krugman (2013) on the ground that big spending cuts drive to deeper slumps. Krugman and many other Keynesian and neo-Keynesian economists advocate pro-growth fiscal stimulus policies. Their main idea is that economic growth can be maintained only by keeping the aggregate demand high – fiscal multiplier being one of the main building blocks of Keynesian economics. The idea of Keynes' fiscal multiplier and its questionable assumptions (e.g. inflexible prices and wages etc.) has been subject to detailed critiques by economists like

William Hutt (1963, p. 247-289), Henry Hazlitt (1959, p. 135-155) and M. N. Rothbard (2009, p. 866-868) and others. Furthermore, recent studies realized by mainstream economists did not confirm a clear positive impact of stimulus policies on economy. There is no consensus regarding the size of multipliers used to estimate the amount of additional income created by additional government spending. A brief review of such studies is realized by Joseph Salerno (2012), mentioning the research of Robert Baro – who, in a 2009 paper analyzing US stimulus program (*Vodoo Multupliers*) argued that the peacetime multiplier was essentially zero – and also the IMF working paper of Ethan Ilzet, Enrique G. Mendoza and Carlos A. Vegh (2011) who announced similar findings.

Also, researches undertaken by supply side economists, showing the positive impact of tax reduction on economic growth are also relevant. Contrary to pro fiscal stimulus economists, who sustain that doesn't matter how budget deficits and public debts reduction are achieved (i.e. by cutting government spending or by hiking taxes), there is an increasingly literature documenting empirically the impact of taxes on economic growth. For example, Alesina, Favero & Giavazzi (2012) concluded on the basis of their study that adjustments based upon spending cuts are much less costly in terms of output losses than tax-based ones: spending-based adjustments have been associated with mild and short-lived recessions, while tax-based adjustments have been associated with prolonged and deep recessions. In response, Paul Krugman and Christina Romer contended that economies performed well after government spending cuts because of expansionary monetary policies or because business cycle picking up. Alesina *et al.* (2012) answer was that they took into account both factors (monetary policy and business cycle phases) and concluded that the difference between spending cuts and hiking taxes regarding the impact on economic output remains and it is significant. According to their research, when government spending fall, private investment is rising and that prevents economy from slumping. Alesina explains that in the case of spending-cut deficit reductions, private-sector capital accumulation rise, with firms investing more in productive activities (buying machinery and opening new plants) while after the tax-hike deficit reductions, capital accumulation drops. Finally, Alesina *et al.* (2012) concluded that carefully designed spending cuts can reduce debt without killing growth, especially if spending cuts are associated with measures like deregulation and liberalization of markets, especially of labor market. At the same time, they admitted that spending cuts do not always lead to economic growth, but pointed out that tax-based deficit reduction (hiking taxes) is always recessionary. A concise literature review of supply side economist's view on austerity is realized by Robert Murphy (2013) in his article *What Economic Research Says About Fiscal Austerity and Higher Tax Rates*. R. Murphy shows that contrary to the claims of some proponents of both deficit spending and increases in the highest income tax rates, there is a large literature on the historical success of supply-side economics and fiscal austerity based on cuts in government spending.

Austerity has different meanings and consequently different ways to be implemented depending on the conceptions about economic growth, about the role of governments in the economy etc. F. Hollenbeck (2013) distinguished between three concepts of austerity: (1) EU type of austerity inspired by neoliberal view of IMF-ECB, stressing less government spending and higher taxes; in practice, most of the EU governments have raised both public spending and taxes, which led to an increase in the relative size of public sector and government role in the economy; (2) Keynesian form of austerity, requiring governments to use fiscal stimulus in order to bust growth and balance their budget (mainly through tax increases) only when economies get stronger; (3) deficit control by shrinking the size of governments and their role in economy (emphasizing government austerity *versus* private sector austerity) sustained by Austrian economists, entailing both slashes of government spending and taxes.

The distinction between austerity conceptions remains important because each view presupposes different values and objectives and it is translated in practice with various results. However, some of these conceptions are more or less conflated or considered much of the same. For example, M. Blyth (2013) in his book, *Austerity, the History of the Dangerous Idea*, attempting to reconstruct "the intellectual history of austerity" presupposes rather unwarranted that there is such affinity or historical continuity in thinking about austerity between classical liberals, Austrian economists, German ordoliberals and the IMF-ECB neoliberals with their programs of fiscal and structural adjustments. All these conception are rather too different in values and scope to be considered akin. Furthermore, although M. Blyth point out fairly well that the negative effects of financial crisis cannot be wiped out merely by fiscal policies, he has no principled objection against fiscal stimulus policies, but only against deficit reduction policies. M. Blyth explains in his quite extensive analysis that Austrian economists' conception about austerity is related to their view on boom-bust business cycles, but neither the reasons of Austrian economists' rejection of fiscal stimulus policies nor their view on money, banking and credit are really tackled in his analysis. The principled rejection of fiscal stimulus by Austrian economists has much to do with Say's Law. It is known that Keynesian economists reject Say's Law based on a peculiar interpretation thereof, while most of their critics reject Keynes interpretation of Say's Law (Hazlitt 1959, Hutt 1974, Kates 1998). According to W. Hutt (1974), Say's law states that on a coordinated market, the supply of any good constitutes a demand for a noncompeting good. This implies that it is never an insufficiency of demand, but only a "withholding" of supply, with potential input suppliers asking more than "market-clearing input prices" (Hutt, 1974, p. 44). Therefore, what the critics of fiscal stimulus contend, based on Say's Law, is that the level of aggregate demand doesn't really matter and that fiscal stimulus cannot bring prosperity or end economic recessions, it only causes wealth redistribution and, in most of the cases, capital consumption. Most of Austrian economists accept Hutt's interpretation of Say's law, rejecting on principle fiscal stimulus. From this perspective, policies targeting deficits reduction must rely on government austerity, not on private sector austerity – exactly the opposite of austerity policies implemented in EU countries. For instance, M.N. Rothbard considers that the proper way to reduce budget deficits is to lower governments' role in economy slashing both expenditures and taxes, particularly taxes that interfere with saving and investment. The reduction of tax-spending level will shift the societal saving-investment–consumption ratio in favor of saving and investment, lowering significantly the time required for returning to prosperity (Rothbard 2000, p. 22). Such kind of policies aiming to lower the role of governments in economy is rather uncommon in current political and academic climate.

Neither neoliberals, nor even supply side economists sustain spending cuts accompanied by tax rate cuts intending to shrink the size and role of governments. IMF programs of structural adjustments (e.g. Washington Consensus) entail fiscal stimulus policies – fiscal consolidation being only a means to enable governments to apply more targeted pro-growth public spending. Also, most of the supply side economists sustain tax cuts as a tool to expand government revenues, according to Laffer curve. Therefore, taking into account such differences in scope, meaning and also consequences in terms of policies and their implications, it is rather unwarranted to claim any affinity between all these conceptions regarding austerity, as M. Blyth presupposes in his analysis. Each conception involves a different stance regarding prosperity, economic growth and best means to attain them and also each conception is guided by different ethical, social and political values. Likewise, M. Blyth conclusions that "austerity has been applied with exceptional vigor during the ongoing European financial crisis" and that "the costs of epistemic arrogance" of austerity advocates have been, and continue to be "horrendous" are an utter exaggeration. The natural tendency of governments is to increase public spending and so far no theory or ideology proved to be so "dangerous" to reverse this historical trend and the case of EU austerity is not an exception so far.

3. Conclusions

In 2009-2010, EU officials announced important cuts in public expenditures, emphasizing that the ideal fiscal consolidation must be focused on spending cuts and not on tax hikes. Such policies were not really implemented in EU countries, the figures revealing that public spending increased in most of the EU member states between 2007 and 2013. The criticism of pro stimulus economists, contending that economic downturn of Eurozone is the result of large cuts in public spending proved to be groundless. Between 2004 and 2013 both governments' revenues and public spending increased in most of EU member states and in EU as a whole. Between 2010 and 2011 governments' expenditures decreased slightly but not as much as governments' revenues collapsed in 2009, given the economic downturn that followed the 2008 crisis. However, the trend of public spending remained ascendant across EU as a whole between 2004 and 2013 and also between 2007 and 2013.

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The European Banking System. Track Record And Achievement

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Abstract: - *The banking system of Europe has experienced two decades of turbulence. Through the 1990's a wave of mergers, liquidations and bankruptcies has swept the sector. This wave was at its peak the last years of the 1990's and the 2000-2004 period. Since then the number of exits from the sector has been relatively stable. It is notable that the cooperative banks suffered more than the commercials. This fact can be attributed to their smaller size, ownership structure, management efficiency etc.During the last decade a great number of events have forced the banking system in Europe to transform, to adapt to a new financial, economic, political and social environment. Two financial crisis (2001-2002 and 2008-2009), two voluntary attempts to regulate the financial system (Basel II and III), the introduction of the Euro and the establishment of the European Central Bank, several regulation attempts to create an isomorphic legal environment, financial scandals of 2001-2002, 2008 and the globalization of the financial sector are some of the events that created a new environment for the financial sector.*

Key Words: - corporate governance, index of Good Corporate Governance, non-performing loans,risk management, macro-financial framework, bank restructuring, financial policies, banking union

Introduction

The global and European financial crises revealed long-standing structural weaknesses that have yet to be fully addressed in individual banks and in banking systems. In large part, they reflected weaknesses in the public, household, and corporate sectors, but the banks themselves contributed to the problems, and the financial sector constituted a feedback channel that reinforced negative tendencies elsewhere.In this context, the note looks at experience with bank restructuring in Europe in recent years, what pressures remain to restructure, the impediments that slow the process, and what policy actions could be helpful. Thus, the discussion includes, but also goes beyond, a review of government-led resolution of problem banks[1].

The map of the financial sector in Europe after fifteen years of turbulence (positive or negative) has changed dramatically, but the factor of spatial dispersion of the sector remains the same. Germany has the largest number of banks (almost the 40% of the total number), followed by Italy (18.62%), France (7.45%), Austria (6.68), UK (4.8%) and Spain. The largest economies of the EU have the highest number of banks. In terms of total equity (TE) and interest income on loans (IIL) the European market has different variance. Using these ratios as classification factors, France (26%) has the largest banking sector in Europe, followed by Germany (14.25%). The concentration of equity capital and income from loans is different from the concentration of banks, as institutions. That means that there is a difference in size and hence a difference in importance.

As expected, ownership is more dispersed in the Anglo-Saxon corporate governance system. Only 5,33% of the banks have ownership concentration higher than 50,01%, whereas in the Continental Europe system ownership concentration above the 50.01% threshold is 18.97%. This finding is in accordance with the one that Franks et el. (2008) reported (UK ownership concentration is 18%, Germany 43% and Italy 68%). On the other hand the difference of ownership concentration between North and South is also substantial. Countries that were ranked to the Anglo-Saxon corporate governance system seem to have the majority of their banks to be controlled subsidiaries (77.51%). PIGSs' banks are very close to the average of every type of ownership.

[1]**International Monetary Fund, Monetary And Capital Markets Department ,** 2013,*Progress with bank restructuring and resolution in Europe*"**,** March

Another important factor for the evolution of the financial sector is the corporate governance structure. Bankscope provides data about the committees working in every bank, through data given for the members of the board of directors. Using this information an index was constructed. The index of Good Corporate Governance Practices is calculated as the sum of the number of committees (remuneration, nomination, risk management etc.)[2].

1. European banking system

The European banking system is inspired by the 1984 French banking law and ensure the promotion of universal bank, as opposed to the Anglo-Saxon concept of limiting financial activities. This system is represented by the European banks, and when we look from the perspective of the single currency, we have in mind, in particular, countries that have adopted the euro. Consequently the European banking system refers to two areas, namely:

- The Eurosystem;
- The European System of Central Banks (ESCB).

Eurosystem - defines the European Central Bank and central/national banks of countries that joined the Eurozone, EU member states: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland. Some Member States have not adopted the single currency - the UK and Denmark, both have an opt-out clause, and Sweden, which does not meet all the criteria on central bank independence.

The objectives of the scheme are:

- to define and implement the monetary policy of the euro area
- conducting foreign operations
- preservation and management of the reserves of the Member States
- to promote an efficient payment system.

Eurosystem has the mission, by the ECB, to deliver euro-banknotes and put into circulation banknotes and coins. On this basis Eurosystem handles production of necessary euro banknotes stock and defining the ways to release them. It also answers for a vast information campaign to help future users of euro banknotes and coins to familiarize themselves with the new banknotes and coins. This campaign aims to facilitate collaboration with other public authorities, and numerous public and private partners. The national central banks of the EU Member States also have a key role in the smooth transition to the euro. Their responsibilities include:

- Introduction of the euro in their countries;
- Managing the changing process of the national currency to the euro;
- Create the system required for the factual free circulation of euro banknotes and coins;
- Withdrawal of the national currency;
- Provide advice and promote the usefulness Euro.

European System of Central Banks (ESCB) is composed of the European Central Bank (ECB) and all other national central banks (NCBs). ESCB is governed by the ECB's decision-making structures, namely the Board of Directors and Executive Committee. The Board is composed of members of the Executive Board and the governors of the national central banks of the Eurozone countries. The Executive Committee is composed of the ECB President, Vice-President of her and four other members chosen from recognized professionals in the field of bank money. The General Council is composed of the President and Vice-President of the ECB, and the governors of the central banks of the Member States. Within the ESCB, the ECB is responsible for developing common monetary policy for the euro area countries, while national central banks are participating in the application of European monetary policy. In accordance with the principle of subsidiarity, they conducted a prudential supervision activity of banking institutions in those countries. The national central banks give a share of their foreign exchange reserves to the ECB, and the governors participate in decision-making within the ESCB.

In current conditions, this universal bank is the European Central Bank. It plays an essential role in one of the most ambitious economic projects ever undertaken, namely European Economic and Monetary Union.

[2] **Themistokles Lazarides and Electra Pitoska**, 2014,*The European Banking System Before and After the Crises*, Social Science Research Network, February 8,

The European Commission proposed the establishment of a single authority that will have the power to decide when banks must be saved or closed, despite the fact that German officials believe that these provisions violate EU treaties, which limited the powers of Brussels on national finances. According to a press release of the Commission, the single resolution mechanism for Banking Union will have a new board, consisting of representatives of the European Central Bank, European Commission and national competent authorities (ie, those of the states in which the head office of the bank, as well as branches and / or subsidiaries thereof). This committee would have broad powers to analyze and define the approach to the resolution of a bank, respectively which tools to use and how should engage Fund resolution. Since November 2014, the ECB will assume the role of a single supervision central bank and the Surveillance Group would have 1,000 people who will work separately and will remain in the old headquarters of the bank. ECB may refer the direct supervision of any other bank, using staff of the ECB and the national competent authority. To this end, the European Central Bank will start checking the quality of assets in the banking system. Establishing a European Supervisory Authority seeks to separate the monetary policy function of the surveillance one.

The institution which will provide unified oversight of the banking system in Europe is aimed at strengthening and consolidating banks and ensuring better protection of customer and supplement the single supervisory mechanism of 2012. Banks that will not meet the new legal provisions will be left to fend for themselves without providing support and advice.

These alterations in the organization and functioning of the European banking system are necessary because the major change (evolution of banking activity, the effects of the economic crisis on banking system, the EU enlargement etc.) that requires a new approach and appropriate regulations.

But there still are a number of problems to be overcome because of the differences in the specific legislation of EU countries, both in institutional and organization terms but also in legal regulations, and in order to avoid those problems it would be possible that each European country be bound to implement this mechanism not just to discuss it.

2. Structure of Banking System in Some Major European Countries

2.1. British banking system

In the UK, banks have played a significant role over time. The British economy has had an important position in the world arena not only in industrial and commercial development, but also in the organization of the banking system. The Bank of England was founded in 1694, by a Royal Charter - royal decree -, having initially a capital of 1,200,000 pounds. Gradually, the Bank of England has evolved from the role of a commercial bank to the functions of a central bank.

Current functions of the Bank of England:

- Bank of Government;
- Bank of the bank;

Responsible for issuing treasury bills;

- Supervises banking institutions in the United Kingdom;
- Keeps accounts in pounds of other central banks and international organizations;
- Lender of last resort;
- The authority to issue currency.

Banks operating in the British system are classified according to several criteria. A classification criterion is **the size of typical transactions** that the bank runs.

* Retail Banks - these banks are addressed prevalently to customers (individuals), for this purpose developing a wide network of units closer to potential customers.

* Wholesale-banks - basically, these banks operate only with high value business having financial relationships with companies or other large-scale banks, on the money market.

Another criterion for the classification of banks starts at their **balance sheet** and is considering types of deposits they accept. This approach divides the banks into primary and secondary.

* Primary banks - are those banks that conduct operations through the mechanism of payments within the country, offering a money transfer via current accounts.

* Side banks - are not part of the payments mechanism and are not participating in the clearing. Most of these banks founds are deposits, mostly in foreign currency, even if these aspects differ from bank to bank.

These are not the only financial institutions that accept deposits from "the public". There are a number of "financial houses" authorized by the Bank of England to accept such deposits

2.2. Italian Banking System

Italy has the oldest tradition in the banking of all European countries and many of the key techniques of banking were "invented" in Italy. Evolution of the banking sector in Italy in recent decades has been different from that followed by banks of other countries. Until recently, the Italian banking system functioned on a 1936 law basis that was passed at that time after a series of bank failures. The main purpose of the law was to prevent other bankruptcies of banks. This was done by dividing financial institutions in seven categories, which were established banking specializations.

This created a unique financial system, whose organization reflected the interaction of three main factors:

- Coexistence of public and private institutions;
- The distinction between banks and other financial institutions;
- Encoding relations between different sectors.

Many of the public sector banks were not intended to achieve profit but providing financial assistance and making charities, locally. There were complex mechanisms that allowed different types of financial institutions to collaborate without being competitive. Savings banks were particularly limited to certain types of operations. A recent law has completely changed this system. The main purpose of this law is to allow financial institutions to change their legal state and become investment companies in the securities field. Other noteworthy structural trends of the Italian financial industry, are:

* Eliminate, by law, difference from various types of banks;
* Granting the right to public sector banks to enter the capital markets;
* Favoring mergers between banks;
* Privatization of state banks;
* Possibility of banks expansion throughout Italy;
* Granting to banks the permission to operate also in other financial sectors.

Evolution of the Italian banking system demonstrates a trend of transformation of the important banks in financial conglomerate (similar to the British ones) and less in universal banks (as the case of the German banks).

2.3. French Banking System

According to French banking legislation (eg the Banking Law of 24 January 1984), we differentiate the following types of financial and banking institutions: proper banks (collectively the French Association of Banks), mutual or cooperative banks, savings houses municipal credit, financial companies, specialized financial institutions. Pursuant to the same law it was also created the Financial Banking Institutions Committee, whose duties comprise the authorization of banking and financial institutions' activity and their classification according to the mentioned categories.

Alongside this committee, an important role in the supervision of banking activity wields the National Credit Council, the Regulatory Banking and Banking Commission. Bank of France (Banque de France) was founded in 1800 and nationalized in 1945; it exercised the role of the central bank. As in other western European countries after the Maastricht Treaty measures were taken to increase its autonomy in the monetary and credit policy.

An event with major implications was the adoption of the Law 93-980 / August 4, 1993, which increased the decisional autonomy degree of the Bank of France. In the new legislative framework, the primary objective of the Bank of France is to define and put in practice the monetary policy in order to ensure prices stability. It accomplishes this task in the overall economic policy of the French Government.

Regarding the regulation of the exchange rate and franc parity, they remain with the Government. However, in the new context, the Bank of France monitors the exchange rate of the French franc, owns and operates the gold and currency reserves of the state. Bank of France deals also the portfolio rediscount bills of exchange, facilitating the issuance of securities by commercial banks.

As a specific element to France, is to note the fact that alongside banks, organizations for collective investment in transferable securities hold an important role. In the early 90s, France ranks first in Europe and second in the world after the US, in terms of the amount of funds managed by these organizations.

Currently in the French banking system there is a tendency of banks universalization.

2.4. German Banking System

The most important institutions of the German banking system are the Federal Bank (Bundesbank) and the Federal Council on Banking Supervision (Zentralbankrat). The Federal Bank, headquartered in Frankfurt, has offices in all provinces. This bank is a legal entity by itself, but has the obligation to support the economic policy of the government. It enjoys the attributes of a federal institution of major importance.

The Federal Bank holds the monopoly for money issue and acts as a bench. Important is the fact that, although operating within the limits specified by federal banking law, it sets independently the interest and the discount rate for its transactions with banks, requires all banks to maintain certain minimum reserves at the Federal Bank, in order to adjust money supply and the general level of interest rates.

In general, Federal Bank does not lend to non-banking institutions, except to the Government and certain public institutions. However, in view to fulfill its incumbent duties it can trade certain securities market. The Federal Council of Banking Supervision is an independent federal body. The president of this body is appointed by the Federal Government.This council grant, within the law, banking and operating licenses, in close liaison with Federal Bank, seeks compliance and enforcement.Council has, in addition, certain decision-making powers such as deciding whether a particular business activity can be seen as a bank, to issue regulations concerning reports to be submitted by the banks on limiting interest or fees levied by banks. The other German banks can be categorized into: commercial banks, savings banks and specialized banks.

2.5. European Central Bank

In accordance to the provisions of the EU Treaty, the European System of Central Banks (ESCB) is composed of the European Central Bank (ECB) and the central banks of all 28 EU Member States (according to art. 106 (1)).By comparison, the Eurosystem comprises the European Central Bank and national central banks of the Member States of the European Union that have adopted the euro. Central banks in countries that have not adopted the euro are members of the ESCB with a special status - meaning that although they are allowed to wield the management of their national monetary policies, they do not take part in making and implementing decisions regarding the single monetary policy for the euro area.

The Maastricht Treaty and the Statute of the European System of Central Banks states that the primary objective of the Eurosystem is to maintain the stability of prices, so the European System of Central Banks (ESCB) supports the general economic policies in the EU, acting in accordance with the principle of a market economy with free competition, favoring an efficient allocation of resources and respecting the settled principles (art. 3A).

Under the terms of the Treaty (article 105 (1)) and the Statute (article 3), the main objectives of the ESCB shall be :

- definition and implementation of the single monetary policy in the euro area;
- management of foreign exchange operations (in accordance with art. 109 of the Treaty);
- maintaining and managing the official foreign reserves of the Member States;
- promote an efficient payment system .

Eurosystem aims to contribute directly to the policy coordination of responsible authorities regarding prudential supervision of credit institutions and ensuring the stability of the financial system. As provided in the Statute (article 5) and in order to meet the proposed goals, the ECB together with national central banks shall collect the necessary statistical information either from the responsible national authorities or directly from economic agents.

Also the Statute (article 7) stated that the Eurosystem is independent in achieving its objectives in the sense that neither the ECB, nor a national central bank or another member of the governing bodies can receive instructions from an external body. Community institutions and the Member States can not influence decision-making bodies of the ECB in the performance of their duties, the ESCB containing provisions on the independence of members of the Board of the ECB.

ECB's capital is 10.8 billion euros and the national central banks of the Member States are the only shareholders. Equity underwriting is based on the participation of each Member State to EU GDP and population size (art. 28 of the Statute).

3. Banking Union, present and perspectives.

At present, restructuring of the European Union (EU) banking system is under way, but is far from complete. Some bank restructuring has started, and the level Tier 1 capital ratios of EU banks have been substantially increased (thanks to government back-stops and capitalization exercises run by the European Banking Authority). But system-wide, capital ratios have been met partly by deleveraging or recalibrations of the risk weights on activities.Consolidation in the banking sector has been slow, with banks rarely closed. Non-performing loans are building up in banks balance sheets, and addiction to central bank liquidity remains high, especially for banks in peripheral countries. Despite the EBA (European Banking Authority) recapitalization exercise having led to €200 billion of new capital or reduction of capital needs by European banks, fresh capital is difficult to attract in an environment where prospects for profitability are uncertain.

Several hurdles impair restructuring and resolution in Europe, and urgent progress needs to be made:

Firstly, EU bank resolution tools need to be strengthened, aligning them with the Financial Stability Board *Key Attributes for Effective Resolution*. Fast adoption of the EU resolution directive is welcome, but enhancements are warranted. Swift transposition should follow.

Secondly, restructuring of nonperforming loans (NPLs) should be facilitated. The legalframework should not slow down restructuring and maximize asset recovery. In several EU countries such as Italy, Greece and in Eastern Europe, bankruptcy reforms lag behind in that for instance, current practice does not allow the seizure of collateral in a reasonable timeframe. Banks should also manage more actively their NPLs, possibly allowing a market for distress assets to emerge in Europe.

Thirdly, further evolution of the General Directorate for Competition's (DG COMP) practices will be needed in systemic cases to ensure consistency with a country's macro-financial framework and support viability of weak banks, recovery of market access, and credit provision. Increased transparency would give added credibility and accountability.

Fourthly, disclosure should be significantly enhanced and harmonized by the EBA, to restore market confidence. In particular, interpretable metrics regarding the quality of banks' assets, in terms of NPLs, collateral, probability of defaults (PD) and loan recovery rates (LGD) are key for assessing the strength of banks and restoring confidence in the banking system[3].

In order to test the hypothesis that there was a change in financial management during the last eight years, a number of ratios have been selected and calculated. Analysis shows that the banks of countries of the Continental Europe corporate governance system have higher average than the ratios calculated for the Anglo-Saxon countries. Continental Europe countries' are more exposed to loan risk. There was no significant change through time. Hence, the legal events (scandals) or other initiatives didnot have significant impact in improving this ratio, but it seems that has an impact on the GGL ratio. The ratio seems to be getting smaller through time. The banks reduced their loan growth, in order to maintain the level capitalization of their business.

The ratio ETA (Equity/Total Assets) in the Anglo-Saxon, South and PIGS countries is significantly higher than in the ones of the Continental Europe. The central Europe's economies have lower levels of ETA. *Finally,* the return ratios (ROA and REP) reveal significant differences between Anglo-Saxon and Continental Europe countries (the difference may be attributed to higher leverage levels in central Europe banks). All ratios do not appear to change through time in every spatial dimension used in this paper.

[3] **International Monetary Fund, Monetary and Capital Market Department,** 2013, *Progress with bank restructuring and resolution in Europe***,** March

The recent developments after 2008-2009 crisis have created a spatial division of Europe. The financial market handles risk by trying to detect it. ***Fitch*** is one of the main ranking agencies. On average the PIGS banks were ranked 14 times and ranked lower than non-PIGS banks. Furthermore, Fitch focused more on the Anglo-Saxon countries banks (15,29 average times). The fact of higher count of rankings can be explained by the interest of the market participants - due to more developed and efficient markets - and their total assets (22% of the total assets of the European banking sector). Overall, the countries that have a large banking sector, in terms of assets and equity, receive better rankings[4].

The crisis trigger was the U.S. mortgage market - to which some European banks were heavily exposed - but the developments displayed a number of adverse feedback loops, therefore the crisis deepened and spread. As a result, negative spirals between sovereigns, banks, and the real economy remain strong. Sovereigns, in turn, are in some cases struggling when they have to backstop weak banks on their own. Absent collective mechanisms to break these adverse feedback loops, the crisis has spilled across euro area countries.

One element of the response was a massive extension of government aid to banks in the form mainly of recapitalization, funding guarantees, regulatory forbearance and easier monetary conditions. The amounts involved are very large: during recent years EU governments have committed unprecedented support for backstopping the financial sector with tax payer money. Over the September 2008 - December 2011 period, member states committed a total of nearly €4.5 trillion, 37 percent of the EU GDP.

The amount of tax payer money effectively used (mainly via capital injections, State guarantees issued on bank liabilities etc.) amounted to €1.7 trillion or 13 percent of EU GDP. Out of the 76 top EUbanking groups, 19 currently have a major or even a 100 percent government stake.

An environment of very low interest rates, quantitative monetary injections, tolerated forbearance, and government backstops has helped avoid very abrupt restructuring and an intense credit crunch, but the underlying pressures remain. Accommodative monetary policies, for example, aim at dealing with acute liquidity stress and giving some breathing space. But they are not by themselves a solution, and must be combined with strong macro policies and comprehensive restructuring strategies (including asset diagnosis, recapitalization and resolution).

As a national approach to resolution may well not be appropriate in the EU given the importance of cross-border banking, and the failure of existing cross-country coordination mechanisms, the European Commission (EC) has taken steps to harmonize and strengthen domestic resolution regimes.

This should help avoid regulatory arbitrage and make orderly resolution effective and efficient for cross-border banks. In June 2012, the Commission issued a draft directive for harmonized crisis management and resolution framework in all EU countries. The Irish Presidency has made the adoption of the resolution framework a top priority and planned to adopt it during the first part of 2013. The new national resolution regimes endow EU countries with strong early intervention powers and resolution tools. The transposition of the directive into national laws should be accelerated relative to the current deadlines (01/2015, and 01/2018 for bail-ins)[5].

Sovereign debt crisis and great dificulties faced by banks in eurozone have revealed not only the major weaknesses of corporate governance in the banking sector but also demonstrated that financial stability cannot be insured at national level because of the vicious circle created between banks and governments-shocks transmitted from the banks to the government and from the govermnent to the banks-and therefore the need to break it by establishing a banking union wethin EU. But there are two other important reasons for the creation of a banking union: the first one would be the completion of single market for financial services, that is the free movement of capital, the second one would be the strenghtening of monetary union, especially the role of single currency.

In order to eliminate the effects of the economic crisis, to the improvement and efficiency of the European banking system and furthermore to mitigate the differences between the 28 banking systems, the EU has also started creating a single bank to harmonize national banking sphere with the provisions of the acquis communautaire.

Banking Union is a process of deepening financial integration in the EU perfectly connected to the completing of economic and monetary union (EMU), a process urged by financial crisis effects, which were turned into a massive bail-out of commercial banks in EU with public money, that led to an explosion of public

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[4] **Themistokles Lazarides and Electra Pitoska**, 2014,*The European Banking System Before and After the Crises,* Social Science Research Network, February 8,

[5] **IMF ,** 2013, *Country Report No. 13/67,* March

debts in the Euro area and created serious financial difficulties for many Member States, producing the so-called sovereign debt crisis in the Eurozone. Difficulties experienced by banks during the crisis and then have revealed the requirement of financial stability and improving. European economic governance, including by way of creating a banking union and then a fiscal union The sovereign debt crisis in the Eurozone and the great difficulties faced by the banks in Ireland, Spain, Greece, Cyprus mainly caused by financing the real estate sector and secondary by risky derivative operations and the purchase of government securities not only revealed major shortcomings of corporative governance in the banking sector. However as the first tool to enhance financial balance of banks and eliminate the financial burden for governments was conceived a European Stability Mechanism, which was going to ensure direct capitalization of banks in trouble. One should not forget that banks have a major role in the European financial system providing about ¾ of all credit used in the EU, their assets being about 3 times higher than the GDP of EU, and thus having a critical/decisive role in the proper functioning of EU economies.Therefore almost € 4,500 billion of European taxpayers money were used to bail out EU banks from a potential bankruptcy caused by financial crisis.[6]

Starting with 2010 a new institutional framework was created for a better supervision and regulation of financial sector: the European Systemic Risk Board (ESRB), in charge with macroprudential surveillance under EU Regulation no.1092/2010, European Banking Authority (EBA), based on EU Regulation no.1093/2010, The European Insurance and Occupational Pensions Authority(EIOPA), established under EU Regulation 1094/2010 and The European Securities and Markets Authority (ESMA) established under EU Regulation 1095/2010. All these authorities are in charge with macroprudential supervision and especially with monitoring and preventing the systemic risk at EU level and also with issuing of warnings and recommendations for financial sector from EU. It is also European Central Bank (ECB) involved in monetary policy and macroprudential supervision of banking sector while at the national level there are specialized authorities in charge with microprudential supervision, but also with some macroprudential functions (like Central Banks) which interact with European Authorities.

Based on this system banking union was defined as having three main pillars: a Single Supervision Mechanism (SSM), a Single Resolution Mechanism (SRM) and an harmonized system of deposit guarantee schemes. On 29 June 2012, European Council decided the creation of a banking union, focusing initally on the establishment of a single supervisory mechanism that involves European Central Bank on the basis of Article 127 (6) of the Treaty on the Functioning of the EU (TFEU). After Larosière Report, which underlay the financial supervision at European level, European Commission published the Communication ”*Roadmap to banking union”*on 12 September 2012 which examined the issues of legislative and institutional framework of the banking union. This Communication was followed by Liikanen Report on 2 October 2012, that reviewed the banking sector, proposed some major reforms and recommended actions in five domains[7]. Starting with October 2012, European Council has reviewed the issues of banking union at every summit, ECOFIN and European Parliament adopted some legislative acts, European Commission submitted its proposals for the needed secondary legislation and strongly cooperated with ECB and EBA for establishing a functional banking union within EU.

The building of institutional framework for banking supervision began in January 2011 when there were created European Banking Authority (EBA), the first one based on Regulation no.1093/2010 and the European Systemic Risk Board (ESRB), the last one in charge with macroprudential surveillance under Regulation no. 1092/2010 and with the involvement of European Central Bank. European Banking Authority (EBA) has only some limited powers to issue standards and recommendations based on European regulations and directives, and banking supervision has remained more the responsibility of national authorities, with or without the involvement of National Central Banks. European System of Financial Supervision consists of the *European Systemic Risk Board* in charge with macroprudential supervision and dealing in particular with monitoring and preventing the systemic risk at Union level and issuing of warnings and recommendations, as well as three European authorities (banking, insurance and pensions, capital markets), the European Central Bank, national supervisory authorities (banking, insurance, capital markets) in charge mainly with microprudential supervision but also with some macroprudential functions. Besides creating the framework for macroprudential and microprudential supervision, the achievement of banking union was preceded by some

[6] **Petre Prisecaru**, 2014**,** *Banking Union - An European Project With Certain Success Prospects,* Procedia Economics and Finance**,**Volume 8, pp. 582–589

[7] **Petre Prisecaru**, 2014**,** *Banking Union - An European Project With Certain Success Prospects,* Procedia Economics and Finance,Volume 8, pp. 582–589

measures and analysis or assessment phases of the European banking sector undertaken by the European Commission, such as stress-tests performed by the Committee of European Banking Supervisors (CEBS) from 2009, when the first test was done, followed by the second in July 2010 and the third in July 2011, here acting together with the European Banking Authority. The tests are intended to assess the resilience of financial institutions to adverse market developments, as well as an overall assessment of systemic risk in the banking system of the EU. Tests are performed based on methodologies, scenarios and key assumptions developed by EBA, the ESRB, the ECB and the European Commission. The results of the third test were published on 15 July 2011, and they showed that a number of eight banks out of a total of 90 failed the stress test, of which five in Spain, two in Greece and one in Austria. Subsequently, EBA has postponed the stress tests until 2014 to allow the ECB to control the situation and the quality of bank assets and to dispel the fears related to the deterioration of macroeconomic conditions after the financial crisis[8].

In this context, the objectives of banking union buiding are related to removal of the negative effects of Eurozone crisis together with strengthening of the single market in financial services, to find a compromise between the economic growth and financial stability, to set centralization benefits compared with those of decentralization (European governance versus national governance), to the benefits of a single regulator as against several and more specialized ones, to the independence of supervisory authority from the interference of politicians or constituency interests (Douglas J. Elliott, 2012). Obviously a banking union claims compromises in the field of some policies, it is difficult to quantify exactly their positive and negative effects and also technical, financial, political difficulties

The main EU legislative bodies - EU Council (ECOFIN) and the European Parliament had a fruitful activity: the first one has adopted a Regulation for the Single Supervision Mechanism and a new Regulation amending the old Regulation establishing European Banking Authority (EBA) and in June 2013 communicated its position on the draft directive establishing a framework for the recovery and resolution of credit institutions and investment firms, European resolution and deposit guarantee funds are going to be covered with the contributions made by credit institutions, while the second one has voted in September 2013 the establisment of a supervisory banking authority of Euro area placed under the auspices of the ECB, whose activities will be periodically examined by EP, and is going to engage in the adoption of directives on bank resolution and deposit guarantee in EU proposed by European Commission and approved by the ECOFIN[9].

The European Commission took the initiative of analyses related to banking union and had the important legislative initiative at all levels of its buiding. European Commission is the connecting link between all EU and national institutions involved in the process, its expertise having a substantial contribution to the European Council decision making and also for supporting the adoption of secondary legislation. The Commission works closely with the ECB and EBA on many technical aspects of achieving banking union. In July 2013 the European Commission proposed the Single Resolution Mechanism, and state aid rules for the banks in crisis.

European Central Bank established within it a Supervision Board, separately from monetary policy tasks, and will be involved in evaluating the participating banks in SSM through audits and stress tests. Supervision Board will have in view around 150 banks in the Eurozone, which (each) have total assets of over 30 billion €, have a balance sheet over 20% of a member state's Gross National Income, are among the three most important credit institutions in that country, receive direct support from European Stability Mechanism (Dorothea Schäfer, 2013).

Conclusions

The paper presented a description of the banking sector, the analysis showed that there are (still) significant differences among the countries or spatial dimensions. These differences didnot change through time. So, the convergence in Europe is still a challenge for the banking sector. Legal convergence failed to have the same effect on the financial and ownership structure of the banks. One finding is that significant is the high ownership concentration. The main reason is perhaps that "ownership concentration in banks remains a desirable internal regulatory mechanism" (Sanya and Wolfe, 2011, p. 12). Financially, capital adequacy and

[8] **Petre Prisecaru**, 2014**,** *Banking Union- Present Stage And Its Perspectives,* International Conference on European Integration - Realities and Perspectives, Danubius University, May 16-17

[9] **Petre Prisecaru**, 2014**,** *Banking Union- Present Stage And Its Perspectives,* International Conference on European Integration - Realities and Perspectives, Danubius University, May 16-17

solvency didnot improve despite the alarming events that took place during the last 10-12 years. Banks have become more restrained in their credit expansion (probably because they were obliged to do so, due to stricter regulation). There are no evidence of financial development or the possibility of reaching the previous levels of profitability and activity (see for example the GGL and ROA ratio).

In conclusion it can be said that there have been made rapid progresses towards banking union constitution on behalf of European institutions that have effectively collaborated, and almost without any flaws, for adopting the secondary legislation required to materialize the three components of the union: surveillance, resolution and deposit guarantee. Nevertheless establishment of two European funds - resolution and deposit guarantee - will still be difficult.

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Drivers Of Long-Term Convergence. Focus On Romania

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Abstract: - With initial low levels of income per capita, a declining population and relatively modest economic growth rates, there are little prospects of diminishing the gap between Romania and the EU countries. Nevertheless, in the long term, convergence is expected. The question then arises, "What are the drivers and their likely potential to boost economic growth and the catching-up process?".
This paper presents shortly the theoretical background of economic convergence and then focuses on the assessment of possible paths of Romania's convergence towards the EU. Based on the existing long-term macroeconomic projections and the assessment of the possible future developments of the drivers of economic growth, we have built three scenarios of economic convergence, highlighting the possible timespan of convergence. We have employed growth accounting methods to decompose output growth rate into production factors' contributions (capital and labour) and total factor productivity.

Key-Words: - economic growth, long term projections, technological change, beta convergence, sigma convergence

JEL Classification: - O11, O47

Introduction

Economic growth has been one of the main concerns of development economics. Empirical analyses have tried to identify growth similarities and differences both in terms of speed and amplitude among various economies and groups of economies worldwide. The subject is also of particular interest for the EU policies that rely on and have the objective of speeding up economic convergence between Member States, usually measured by GDP per capita in PPS[1]. At the EU level, an additional policy interest in the convergence processes stems from the negative impact of the recent crisis on GDP growth across Member States. As Dobrinsky and Havlik (2014) highlight, economic convergence within the EU is far from being uniform both across New Member States[2] and within the rest of the EU and such heterogeneity has been further deepened by the recent crisis.

[1]Purchasing power standard (PPS) is the technical term used by Eurostat for the common currency in which national accounts aggregates are expressed when adjusted for price level differences using the purchasing power parities (PPPs). Thus, PPPs can be interpreted as the exchange rate of the PPS against the euro.
[2]Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia joined the EU in 2004, Bulgaria and Romania in 2007 and Croatia in 2013.

Romania's current gap in GDP/capita is 46 pp if compared to either EU27 or EU28. The long-term projections on macroeconomic developments in Romania vary from pessimistic in the European Commission's study to very optimistic in the national studies:

- The Ageing Report: European Commission (2012).“The 2012 Ageing Report. Economic and Budgetary Projections for the 27 EU Member States (2010- 2060)”. *European Economy 2/2012*

- Long term module of Dobrescu macromodel, in Corina Saman and Bianca Pauna eds. (2013) **“**Building Blocks in Modeling a Market Economy – Dobrescu Macromodel of Romania”. *Nova Publishing Inc., New York. “*Chapter 6: Long-term forecast”, Florin-Marius Pavelescu

- MECC (2013) “Ministry of Environment and Climate Change. Romania's 2013 Report for the Assessment of Projected Progress under Decision no. 280/2004/EC of the European Parliament and of the Council Concerning a Mechanism for Monitoring Community Greenhouse Gas Emissions and for Implementing the Kyoto Protocol”. Paper commissioned to ISPE.

The goal of the paper is twofold: to reveal the potential contribution of the drivers of economic growth to the real convergence and to simulate the timeline for catching-up process, under various assumptions for GDP/capita growth rates.

The remainder of the paper is structured as follows: Section 2 presents the theoretical framework for assessing convergence, while Section 3 contains empirical investigations on Romania's long-term convergence. Based on the long-term projections on Romania, we have built three scenarios of real convergence to the EU, assessing the possible contribution of various drivers of growth. We have employed growth accounting method, the output growth rate being decomposed into production factors' contributions (capital and labour) and total factor productivity. Section 4 highlights the main findings drawn from the analysis.

1. Theoretical framework for assessing convergence

Real economic convergence between economies (at country or regional level) generally refers to the decreasing distance between the development levels of the economies under assessment or the closing of the existing gap between the welfare levels of such economies. Neoclassical (exogenous) growth theories predict that convergence processes occur between open economies. In other words, real per capita GDPs of the countries converge towards their individual steady state or their common steady state, irrespective of their initial start. However, more recent (endogenous) growth theoretical developments also allow room for economic divergence between countries, taking into account the variable impact of different drivers of economic growth such as: increasing returns on human capital, or foreign trade and foreign direct investments that can facilitate technological levelling between economies, provided that barriers between economic flows are gradually removed and economies become more and more integrated.

A comprehensive analysis of the evolution of different concepts of convergence in economic theory has been conducted in Nazrul Islam (2003), out of which we highlight in what follows a couple of ideas.

The theoretical debate on convergence definition originates in Robert Solow's (1970) work on growth theory. The main goal of Solow's endeavour was to demonstrate that economies could generally achieve stable dynamic equilibria as production factors can be substituted with each other. Irrespective of the initial endowment of an economy with capital, diminishing returns to capital and factor substitution allow an economy to *converge* towards its uniquely determined equilibrium. As Islam (2003) points out, convergence was first identified as a rather *within country* than an *across countries* phenomenon.

The across countries convergence may, in turn, refer to *growth rate convergence* or *income level convergence*. No matter what indicator is taken into consideration, neoclassical growth theory assumptions have to be adjusted in order to accommodate across country convergence. Namely, technological progress is required to be: i) generated without costs incurred, ii) available without payment for its benefits and iii) equally available for various countries. As a result, economies will converge in terms of growth rates. Adding the assumption that economies are characterised by identical specification of the production function will lead to the result of *converging income levels* across countries.

One important theoretical distinction in the convergence literature is between β- and σ-convergence. β-Convergence theory is built upon the assumption that *capital exhibit diminishing returns*. In other words, the lower the capital endowment, the higher the marginal productivity of capital. Conversely, countries with higher levels of capital endowment will experience lower marginal productivities of capital. *At the same investment rate*, countries with low capital endowment will tend to grow faster than those with higher capital endowments.

The *negative correlation between (initial) capital endowment and growth rate* is reflected in regressions employed in empirical research by the β coefficient and the convergence process is known as β-convergence.

Other researchers have argued that convergence should be regarded in relation to the *dispersion of income (or growth rates)* between economies and that a negative β coefficient is not automatically conducive to a reduction in such income dispersion. This approach led to the development of the σ-convergence concept, where σ also stands for standard deviation of income levels across countries. However, β-convergence is a prerequisite of σ-convergence and this justifies the body of empirical research that has employed the β-convergence model.

Conceptually, other relevant distinction related to convergence is that between *unconditional* and *conditional* convergence. According to initial Solow-Swan model further developed by Mankiw, Romer, and Weil (1992) and Barro and Sala-i-Martin (1995), the *steady-state income level* (y^*) of an economy towards which it converges depends on: *i) the initial level of total factor productivity (A_0), ii) technological progress growth rate (g), iii) labour growth rate, (n), iv) investment rate (s), v) depreciation rate, δ), and vi) elasticity of output with respect to capital (α)*, as follows:

$$y* = A_0 e^{gt}\left[\frac{s}{(n+g+\delta)}\right]^{\frac{\alpha}{(1-\alpha)}} \qquad (1)$$

All six explanatory variables can be combined in a vector, *X*. If vector *X* is identical for all economies under assessment, *unconditional or absolute convergence* occurs between economies (β coefficient, above mentioned, would take negative values).

Conditional convergence, on the other hand refers to the hypothesis that various economies display different steady-states and different explanatory variables (or country specific vector *X*) have to be included in the model in order to control for such differences. The unique equilibrium in the standard neoclassical growth theory evolves into a multitude of equilibria in the conditional convergence theory.

Conditional convergence is also closely related to the *club convergence* concept, initially coined by Baumol (1986) and further developed by Durlauf and Johnson (1995) and Galor (1996). As mentioned above, *unconditional convergence* of various economies reflects the process of economic convergence towards a unique, common to all steady-state whereas *conditional convergence* models a reality in which economies converge towards multiple equilibria. The final convergence outcome depends for each economy on the initial state and other variables. A group of economies or a club may display convergence processes towards a common steady-state provided that they more than less enjoy similar initial conditions and/or similar levels of explanatory variables in vector X. Geographical vicinity, similar social and economic organization and endowments etc. are obvious examples of such similarities that lead to *club convergence*.

Main causes of GDP per capita convergence investigated in empirical research were considered to stem from the increase of capital endowment of economies (capital deepening) and/ or from technological progress (catching-up). Although generally considered to explain various factors that impact the combination of production factors in an economy, total factor productivity (TFP) is usually employed as a reliable proxy for the technological level of an economy in empirical research. The concept of *TFP convergence* thus evolved as explanatory underlying process for income convergence. Correlation between income convergence and differentials in initial levels of TFP and technological growth rates between economies were investigated in empirical research.

Synchronization of business cycles may also positively influence the convergence processes. The European Central Bank (2006) found that business cycles of Euro zone countries are highly synchronized, namely the standard deviation of the output gaps of a certain country over a period of time has been diminishing since the mid-1990s. Nevertheless, the output volatility is higher for the smaller and more open economies, as well as for the countries that have a relatively high degree of specialization in certain sectors.

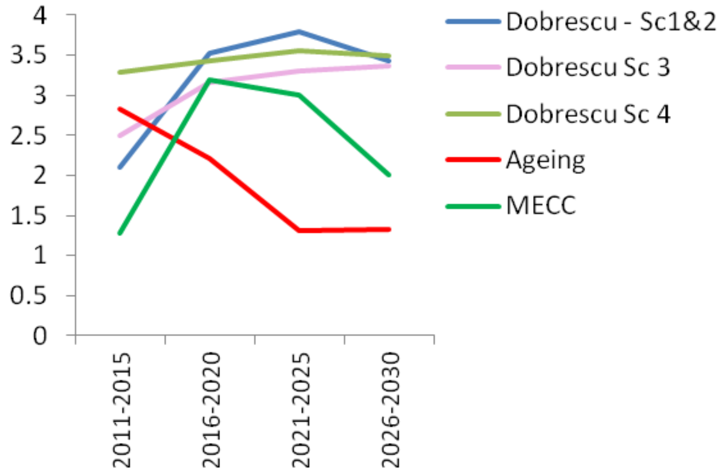
2. Romania's convergence, possible paths and their drivers

In PPS terms, Romania's GDP/capita is currently at 54% of the EU27average. Real convergence requires that Romania grows faster than the EU and that the higher pace is sustainable. In this section we intend to discuss various scenarios regarding the timeline of Romania's convergence with the EU average and also investigate the possible drivers of this catching-up process.

First, we illustrate medium and long term projections for GDP growth rate from existing studies, and then we present simulations of convergence timeline under various assumptions and look at the key determinants of convergence.

2.1 Existing long term projections for Romania

Figure 1: Projections for Romania's GDP growth rate in various studies



Source: authors' projections, based on MECC (2013), The 2012 Ageing Report and the *Long term module* of Dobrescu macroeconomic model (eds. Păuna and Saman (2013))

The estimates of Romania's GDP growth rate vary with the authors and the projections time span. The most recent macroeconomic projections for Romania are available from MECC (2013), The 2012 Ageing Report and the long term module of Dobrescu macroeconomic model with its four scenarios (eds. Pauna and Saman (2013)). For comparability reasons, we present projections only until 2030, which is the last year available in national studies.

The Figure 2 reflects the level of divergence in estimating Romania's future GDP/capita growth rates between the European Commission's Ageing Report (2012) and both national studies: MECC (2013) and eds Pauna and Saman (2013). According to Ageing Report (2012), the GDP growth rate is expected to be quite modest for Romania and drops significantly after 2020, diverging from projections of both national studies.

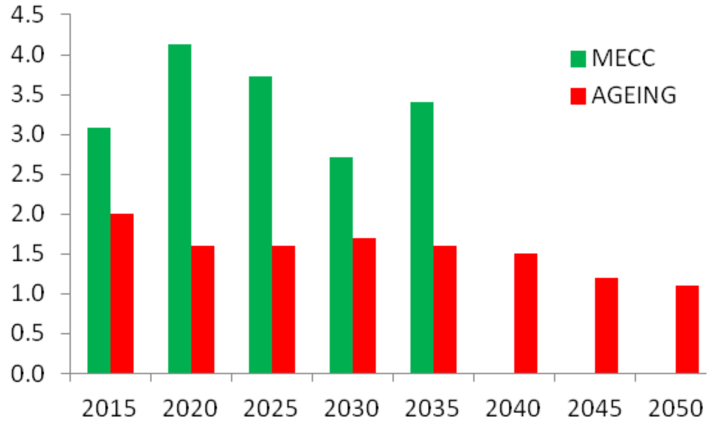
Projected GDP/capita growth rate, as a measure of real convergence, does not offer ground for optimism in respect of closing the gap with the EU, at least according to Ageing Report, that estimate Romania's growth rate to about 1.5 % on long term, compared to 1.3% for EU28. Moreover, if we adjust the population figures downwards to the actual numbers (taking out the emigrants accounting for about 12% of the total population[3]), the decline in population over the projection period would be much less significant, and therefore the GDP/capita growth rate would be even lower. National projections are again much more optimistic, with above 3% GDP/capita growth rate in MECC (2013) and with more than 2 pp above the EU average in the medium term projection of GDP/capita growth included in the Convergence Programme 2014-2020, (Table 2, p.5). The latter suggests that Romania is likely to continue the real convergence process, 'reaching almost 70% of EU28 average GDP/capita in PPS by 2020'.

Projections of GDP/capita reflect various assumptions regarding or estimates of the determinants of economic growth, namely demographics and labour market, capital deepening and total factor productivity trends, but also aspects of structural convergence, such as harmonizing and or synchronizing of shocks, sectoral structure of value added and employment, economic reform, education and research and development.

[3]INSSE: The estimated number of emigrants as of January 1st, 2013 (number of citizens outside the country for 12 months and above) is 2.344 million.

Below we highlight the main assumptions lying behind the existing projections, as a background in building scenarios in next section.

Figure 2: Projections for Romania's GDP/capita growth rates in recent studies



Source: authors' projections, based on MECC (2013) and Ageing Report (2012)

According to all projections Romania's population will continue its decreasing trend. A sharp decline of total population, by 19.6% until 2060 compared to 2010, is expected according to Ageing Report (2012), despite positive developments in some of its determinants: i) increase of fertility rate (by 17% until 2060); ii) improvement of life expectancy at birth (from 70 years to 81.8 years); iii) reverse of the current net outflow of population. MECC (2013) also assumes an important decline of population over 2010-2030, even bigger than the estimation of Ageing Report for the same period of time.

Since demographics are critical when speaking about real convergence, it is worth to comment on the statistics regarding actual data used for population. In our view, **the historical figures for population are persistently overestimated; therefore the actual drop in population may not be as significant as currently projected**, especially that the migration outflow of is expected to reverse, according to the Aging Report. More precisely, the figure for population, of 21.4 million in 2010 does not include the stock of emigrants that accounted for about 13 % of the population in 2010, i.e. 2.8 million[4]. A more recent estimation of the National Institute for Statistics shows that emigrants represent 12% of the total number of residents in 2013 (2.34 million emigrants versus 19.94 million residents), which is far away from the 'official migration' figure usually included in official population figures, as for example 7,900 persons in 2010. Nevertheless, a smoother decline of population (or even a stagnation), would further deteriorate the GDP/capita growth rate projections of Ageing Report, making the convergence to the EU in terms of per capita GDP even slower.

Labour market developments are going to have negative contribution to GDP developments, but a declining population represents a relative advantage regarding the measure for real convergence, improving the level of GDP/capita compared to GDP growth rate projections. The participation rates are currently far below the target values anticipated in strategies[5] and the existing projections do not reflect a gap closing trend with the EU. The Ageing Report estimates a decline in the Romanian labour supply by 38.5% until 2050, opposite to the general trend in EU28. The same Report projects a deterioration of the participation rate (25-64 years), from 63.8% in 2010 to 60.9 % in 2060 and an ageing trend in population: the share of 20-64-year-olds will decrease by almost 40%, while the share of 64 and over will increase by almost 90%.

The MECC (2013) projects an equilibrium level of participation rate at 53.52%, below both the current value and the average of last two decades. Low and decreasing participation rates projected in both studies will continue to have a negative contribution to the GDP growth.The long run projections for unemployment rates are to converge to structural unemployment.

[4]http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/Top10.pdf

[5]The National Employment Strategy 2007-2010 target for employment rate was 70% by 2010. Currently the employment rate of 20-64-year-olds is 6 pp below the EU2020 target for Romania, set at70%.

Labour productivity gains would reflect the increase in TFP and the capital deepening. Estimates of **total factor productivity (TFP)** growth rate projections also vary across different authors. In Dobrescu macromodel for Romania, total factor productivity growth rate estimate for Romania is considered fixed at 2.5%,composed of 1 percentage point representing the TFP growth rate of the EU plus 1.5 percentage points, Romania's convergence rate. However, the Ageing Report estimates an average TFP growth rate of 1.3% and converging to only 1% for all EU Member States.

Regarding the capital deepening, the expectations of the Ageing Report are that the capital growth rate will decline after 2020 from 1.5% to 0.74% on average, over the remaining period until 2060. Romania's Convergence Programme 2014-2020 sees an increasing trend for the contribution of capital to GDP growth, but does not provide any hint regarding the longer term, as the 'Ageing' projections do. In Dobrescu macromodel there are several assumptions regarding the possible capital developments, depending on scenario, but overall GDP growth rely on both capital deepening and a TPF higher than the EU average.

2.2 Three scenarios regarding the timeline for closing the gap of GDP/capita between Romania and EU

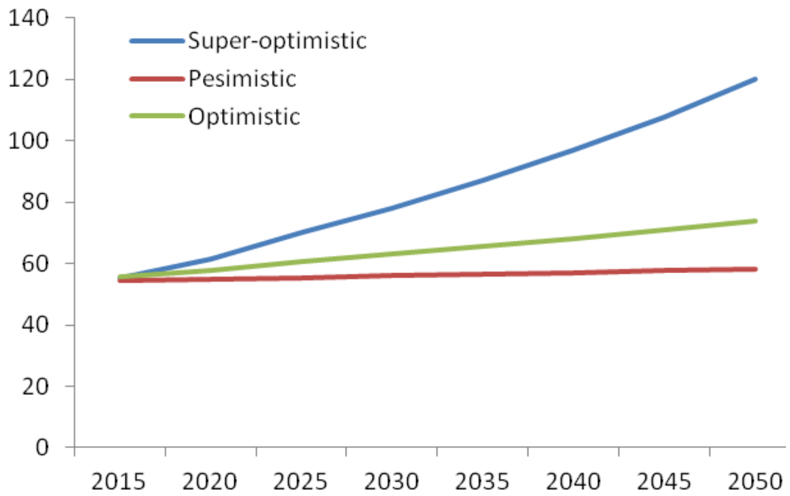
In order to investigate possible timelines for closing the gap between Romania and the EU, we imagined the following three scenarios regarding GDP projections (**Error! Reference source not found.**) and discussed their determinants:

Table 1. Three scenarios regarding Romania's convergence with EU28 during 2010-2060 (percentage points)

		Romania		
2010-2060	**EU28 scenario**	**Pessimistic scenario**[6]	**Optimistic scenario**	**Super-optimistic scenario**
GDP growth rate(1)	1.4	1.1	2	3.4
Population(2)	0.1	-0.4	-0.1	-0.1
GDP/capitagrowth rate (3=1-2)	1.3	1.5	2.1	3.5

Source: authors' projections based on various sources, using growth accounting method

Figure 3: Romania's GDP/capita simulation in the three scenarios (EU28 =100)



Source: authors' projections, assuming various GDP growth rates for Romania versus EU28 average growth rate projected in Ageing Report for 2010-2060

[6] cf. Ageing Report 2012

For all scenarios we considered as reference the growth projections for EU28 from Ageing Report, namely an average growth of GDP/capita of 1.3%.We also employed the same accounting rules as used in the Ageing Report and, as mentioned below, adjusted Romania's growth rates provided in public sources in order to fine tune growth in three different scenarios, ranging from *'Pessimistic'* to *'Super-optimistic'*.

For Romania's GDP/capita growth over 2010-2060 period we considered an average rate of 1.5% in the '*Pessimistic scenario*'(similar to the projections of Ageing Report), 2.1% in the 'Optimistic Scenario' and 3.5% in the '*Super-optimistic scenario*'. The latter is inspired by the long term projections (until 2030) of Dobrescu macromodel for Romania's GDP growth, taking into account that the model predicts a growth rate higher than EU28's by 2 pp.

As it can be noticed from the graph below, Romania's GDP/capita will likely equal that of the EU28 around 2040 in the *'Super-optimistic scenario'*, in which Romania's GDP/capita is projected to grow on average by 3.5% and EU's by 1.4% annually. In both the *'Optimistic'* and the *'Pessimistic'* scenarios the lines illustrating Romania's and EU28's GDP/capital will only intersect – if ever – beyond the projection horizon of 2060.

One conclusion that can be drawn is that the existing estimates on Romania's convergence to the EU range, according to their source, from over confident (Romanian sources) to over pessimistic (EU sources). Even in a moderately optimistic scenario, however, one cannot expect Romania to rapidly converge towards the EU unless the underlying conditions are amended, namely either Romania grows faster than expected and/ or the EU growth diminishes in time.

Further on, for in-depth investigation of the conditions underlying growth projections, we have used the growth accounting method employed in the Ageing Report, to decompose output growth rate into production factors' contributions (capital and labour) and total factor productivity[7]:

Table 2. Decomposition of GDP growth into contributions of factors, 2010-2060 (percentage points)

2010-2060	EU28 scenario	Romania: Pessimistic scenario[8]	Romania: Optimistic scenario	Romania: Super-optimistic scenario
GDP growth rate (1=2+3+4)	1.4	1.1	2	3.4
Labour input (2)	-0.1	-1.00	-0.5	-0.1
TFP (3)	1	1.3	1.5	2
Capital deepening (4)	0.6	0.8	1	1.5

Source: authors' projections based on various sources

In all our three scenarios labour input is expected to have a negative contribution to Romania's GDP growth, taking into account the negative impact of an Ageing and decreasing population. However, in the *'Optimistic'* and *'Super-optimistic'* scenarios we departed from the assumption of the *'pessimistic'* one (identical to that provided in the Ageing Report 2012) and considered still negative but milder contributions of labour input to growth (from -91% in the *'Pessimistic'* to -25% in the *'Optimistic'* and -3%, approximately, in the *'Super-optimistic'* scenario). We argue that pessimistic projections of labour input do not take into account the already high numbers of unregistered Romanian emigrants. In the long run, demographics are more than likely to negatively impact Romania's growth, although perhaps not as harshly as projected in Ageing Report. Nevertheless, in the long term, labour is expected to contribute to growth less than the other production factors, as it was already confirmed in the Euro area (The European Central Bank (2006)).

TFP and capital deepening are projected to have positive contributions to growth given the fact that Romania still evolves from an 'initial' low position compared to the EU. The current marginal productivity of the capital allows room for increased investments and further integration of Romania's economy into the common market, which will foster rapid adoption of higher productivity enabling technologies. Capital deepening is very likely to have an increasing trend, despite the developments over the last couple of years,

[7] According to Ageing Report 2012,GDP growth is decomposed in labour input contribution and productivity contribution which, in turn, is further divided into TFP and capital deepening contributions.

[8]cf. Ageing Report 2012

when gross fixed capital formation dropped from about 26% of before the economic crisis (2005-2007) to only 6% over 2011-2013 period.

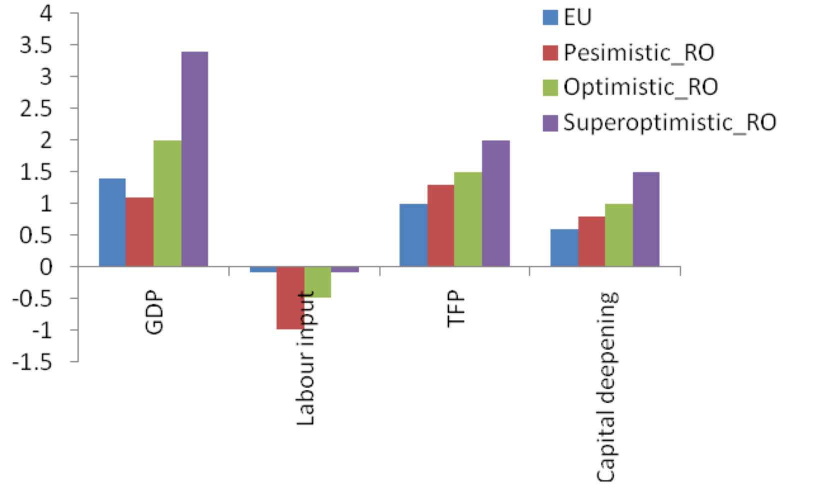
Adopting new technologies will have a significant impact on the industrial branches by improving the labour productivity. As proven in the EU advanced countries, productivity gains are concentrated in high-tech industries, a fact that further emphasizes the need of structural changes towards more value added activities in Romania.

We share the opinion that Romania GDP growth rate should rely on TFP growth rate significantly above that of EU. Thus, we projected TFP contribution to growth to range from 118% in the *'pessimistic'* to 75% in the *'Optimistic'* and 59%, approximately, in the *'Super-optimistic'* scenario. We tend to consider unrealistic a more than 100% contribution of TFP to growth during the projection period and therefore favor the *'Optimistic'* and *'Super-optimistic'* scenarios with lower TFP contributions, although above the estimates of the Romanian Commission for Prognosis. Similarly, we projected capital deepening contribution to growth to range from 72% in the *'Pessimistic'* to 50% in the *'optimistic'* and 44%, approximately, in the *'Super-optimistic'* scenario. Again, in the later scenarios we depart from EU projections but near the estimates made by The Romanian National Commission for Prognosis.

Another two arguments to expect higher TPF rates in Romania are related to the likely changes in the value added structure and the positive contribution of foreign trade.

Currently, Romania has structural deficiencies, such as weak manufacturing base and a high dependency on agricultural production. In terms of value added, it has a much higher share for agri-food, and a twice lower for market services, when compared to the EU's average. Thus, Romania's structural convergence with the current EU structures would imply **shrinking the agriculture and to a lesser extent the industry, in favour of services sectors.**

Figure 4: Decomposition of GDP growth (average 2010-2060)



Source: authors' projections, under the assumptions in Ageing Report for both Romania and EU28

Regarding foreign trade performance, despite the developments over the last two decades, when imports have increased faster than exports, thus deteriorating the trade balance, especially with the EU, foreign trade is not likely to impede economic convergence. The share of Romania in world total exports has increased and the asymmetric shocks between Romania and the EU are likely to decrease, since over the last decade, 'the level of convergence of Romania's intra- industrial trade with the EU27 increased significantly', as estimated in Turlea (2014).

In our assumptions regarding the decomposition of GDP growth into its determinants, we took into consideration also the estimates from the Convergence Programme: the contribution of capital to GDP growth ranges from 50% to 56%, that of the labour from 4% to 10% and the remaining TFP from 37% to 44% during 2013-2017.

Conclusions

Romania, as other New Member States underwent a painful economic restructuring process prior to its accession to the EU. The transformations towards a market economy negatively influenced previous convergence achievements. Unfortunately, even after the EU accession convergence was sluggish in Romania's case although other New Member States took advantage of their newly improved status. Dobrinsky and Havlik (2014) show that over the 1995-2012 period, compared to the EU average, the GDP of New Member States (PPP-weighted) increased by 40 percentage points, while Baltic states gained more than 60 percentage points and Romania less than 20 percentage points. During 1995-2012 Romania's real GDP grew on average by 2.49% annually while EU27's average growth rate was only 1.71% per annum. The 2008 crisis further hit the group of New Member States which grew on average by 0.68% annually between 2008 and 2012. During the same period, the EU27 decreased by 0.23%, and Romania by 1.23%, on average.

In respect of future developments, existing estimates on Romania's convergence to the EU range, according to their source, from over confident, as in the case of Romanian sources, to over pessimist as reflected by EU sources. From 2020 until 2030 Romania's GDP is expected to increase with average rates between 2% and 3.8% annually in Romanian papers and below 1.5% annually in EU sources.

Furthermore, real convergence measured by projected GDP/capita growth rate, does not offer ground for optimism in respect of closing the gap between Romania and the EU. Again, Romanian sources lie in the optimist area of 2.7%-4.1% growth rates while EU sources estimate a GDP/capita growth rate of only 1.1%-2% during 2015-2050.

Although deriving a timeline for Romania's convergence to the EU average is technically trivial once growth rates are estimated, we could not find such tentative timelines in any of the investigated sources. In order to investigate possible timelines for closing the gap between Romania and the EU and starting from the existing estimates we imagined three scenarios regarding the growth of GDP and GDP/capita (*'Pessimistic'*, *'Optimistic'* and *'Super-optimistic'*) and discussed their determinants.

In the *'Super-optimistic scenario'* Romania's GDP/capita will likely equal that of the EU28 around 2040. In both the *'Optimistic'* and the *'Pessimistic'* scenarios Romania's and EU28's GDP/capita will be on par – if ever – only beyond the projection horizon of 2060. It follows that one cannot expect Romania to rapidly converge towards the EU unless the underlying conditions are amended and either Romania grows faster than expected and/ or the EU growth diminishes in time.

In the long run, demographics are more than likely to negatively impact Romania's growth, although perhaps not as harshly as projected by the EU sources. TFP and capital deepening are projected to have positive contributions to growth given the fact that Romania still evolves from an 'initial' low position compared to the EU. Our expectations regarding the positive contribution of TFP and capital deepening rely on advancements in value added chains, increased both private (domestic and foreign) and public investments (i.e. infrastructure) and positive contribution of foreign trade in respect of technology adoption and positive direct contribution to GDP growth. Despite various attempts in literature to prove differently, economic convergence does not occur automatically, at least in the short and in the medium run. Geographic location, institutional arrangements and, most importantly, public policies implemented in economies influence the convergence processes and Romania will most likely not be an exception.

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The Influence Of The Reduction Of The Employers' Social Insurance State Contributions On The Staff Expenses. Case Study For Public Institutions Of Lower Secondary Education

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Abstract: - Public institutions of lower secondary education are financed mainly from the public resources allocated from the local budget. Expenditures incurred from these resources have a maximum limit and a destination set out in the budget of each educational unit.
The revenue and expenditure budget or only the expenditure budget of a lower secondary education institution provides for the maximum amounts to be used for the expenses made throughout a budgetary exercise. Therefore, reducing the share of social security contributions from your employer by five percentage points would affect the budget of such institutions as it would lead to a modification of the social insurance contributions expenses.
In this paper we have described the structure of the current expenditure of a lower secondary education institution, especially with regard to staff expenses, because they hold the largest share in the total expenditure constantly incurred by the units concerned and are affected by the social security rate change. We have also presented the theoretical aspects related to the staff expenses, the budgetary execution phases that staff expenses must cover, the accounting treatment of costs of employers' social insurance contributions, the recognition of employers' expenses for the social insurance State contributions in the bookkeeping of lower secondary education institutions, as well as the influence of changes in rates of the social security State contributions from the employer on the staff expenditure of the institutions mentioned.

Key-Words: - staff expenditure; social insurance contributions; the revenue and expenditure budget; the local budget; lower secondary education institutions.

1. Introduction

With effect from October 1st, the current year, the employers' social insurance State contributions is to be reduced by five percentage points, which will cause a change in the sense of reducing the costs borne by employers with the State social insurances. The term employer refers to any natural or legal person that may, according to the law, engage workforce on the basis of an individual contract of employment. [1] Public institutions are legal persons who employ workforce on the basis of individual contracts of employment, and in this regard can be considered employers. Thus, public institutions as well will apply the provisions relating to the reduction of social security State contributions. According to the Labour Code the obligations incumbent on an employer include the payment of all contributions and taxes in their task, as well as to apprehend and transfer the contributions, taxes due from their employees, according to the law.

In order to make expenditures or expenses for the social insurance State contributions, public institutions must stipulate these on a legal basis. Thus, the expenses incurred by public institutions of lower secondary education institutions are provided for in the revenue and expenditure budgets drawn up at the level of each unit as well as in local budgets.

The budgets drawn up at the level of each unit of lower-secondary education comprise income and expenses or only the fees to be paid by the institution concerned in the following budget year, totally and broken down by quarters, as well as the estimates for the following three years.

Local budgets are documents which yearly provide for and approve the revenue and expenditure of all administrative-territorial subordinated units. [2]

In local budgets, expenditures are classified according to a functional and economic criterion. The functional criterion involves the separation of expenditure according to areas of activity: general public services; Defense, public order and national security; social-cultural expenditures (education, health, culture, religion, social assistance, pensions, grants and allowances); economic activities etc. [3] The economic criterion separates the expenses according to their nature in current expenditures that are constantly made to any public institution (staff expenses, charges for goods, services etc.) and capital expenditure (investments to institutions). [3]

The staff expenses have got an important place in the revenue and expenditure budget of lower secondary education institutions and include salary costs in money and in kind as well as contributions.

Using the information in the revenue and expenditure budget can analyze the influence of the change in expenditure for the State contributions social insurance on the staff expenses.

2. Theoretical assertions relating to staff costs. The accounting treatment and recognition of expenses for the employers' social insurance State contributions

Expenses reflect the cost of goods and services used in pursuit of public services or, where applicable, revenues and subsidies, transfers, social assistance granted, for a period of time. [4]

Staff expenses include: salaries of personnel; labour rights in kind; employers' contributions to social security, unemployment insurance, health insurance, accidents at work and occupational diseases, costs relating to insurance and social protection; benefits of delegating, detachment.

Under accrual accounting, expenses are recognized in the period in which they occur. [5] Thus, expenditure on wages and salaries in cash and in kind, with the first, the 13th salary and expenses with related contributions are recognized in the period in which the work was performed, although their pay is implemented in the following period.

In view of the above, employers' social insurance State contributions will be recognized in the period in which the work was done in the debit of an account for expenses and credited to an account of debt, both having the same name, namely "Employers' Social Security Contributions", however, having different accounting functions and symbols.

The expenses account for the costs of employers' social insurance State contributions shall be credited at the end of the period, monthly, or upon preparing the financial documents at the latest, with the expenses allocated to the account of patrimonial result.

The payables account concerning the employers' social insurance State contributions will be charged at the time of the payment of these contributions with the amounts paid.

According to the tax code the social security State contributions are compulsory social contributions due and payable by any tax-payer of income such as salary or income to be assimilated to salary until 25th of the month following the month for which it is due, or until the 25th day of the month following the quarter for which it is due.

Any public institution, regardless of the subordination and the mode of financing the expenditure, shall comply with the procedures for completing the following phases of the budgetary execution of expenses: making, liquidation, authorisation and payment of expenses.

Operations specific to making, liquidation and authorisation of costs of public institutions are the responsibility of authorising officers, and of their superiors respectively, and shall be carried out on the basis of proposals from specialized departments of the public institution. [6]

Making staff expenditure from public sources includes legal and budgetary commitment.

The legal commitment represents any legal document which shows or might lead to an obligation at the expense of public funds. [7] In this case, the legal commitment is represented by the individual employment contracts concluded with the institution's employees.

The budget commitment represents any document by which a competent authority commits public funds to certain destinations, within the approved budgetary appropriations. [7] The budget appropriations being the maximum amounts approved by the budget up to which one can authorize and make payments during the budgetary year.

For the staff expenses of the lower secondary educational institution that have been studied a global budget commitment is to be drawn up by the accounting section which will be authorized by the person designated to carry out the preventive financial control and signed by the Director, in his capacity as credits authorizing officer.

Liquidation of staff expenditure is the stage from the budget execution process in which one checks for the existence of legal and budgetary commitments, determines or verifies the reality of the amount owed, checks the date of payment of the costs on the basis of the data in the legal commitments or the individual employment contracts respectively.

Payment obligations, both salaries and contributions, will be recorded in the patrimonial bookkeeping of the lower secondary education institution on the basis of supporting documents which certify the completion of the liquidation phase, namely the state of salaries, salaries synoptic table, summary situation regarding salaries.

Supporting documents are verified by the person empowered to carry out the liquidation expenses, implicitly staff expenses, upon confirmation that the verification has been carried out.

Authorisation of staff expenses is the phase in the process of budgetary execution in which it is confirmed that these expenses have been verified and that their payment can be made. At this stage one is to draw up the

"Payment Authorisation" document which will specify: the amount due, the identification data of the beneficiary of the amount, the nature of the expenditure, method of payment, cash before payment, the amount to be paid, cash after payment etc. The "Payment Authorization" accompanied by the original supporting documents, must be authorized by the person empowered to carry out the preventive financial control and then signed by the Director of the institution. After approval, the "Payment Authorization" accompanied by all documents shall be forwarded to the accounting department for the payment to be made.

Staff expenses payment represents the final act whereby the public institution pays its obligations. The payment instrument used for the lower secondary education institution under study is the payment order to the State Treasury, and the payment of salary and corresponding contributions is to be made from the account of the Treasury where the institution opened the account.

The staff expenses payment is to be made by the head of the Accounting Department of the institution only if the following conditions are met:

- expenses to be paid have been engaged, liquidated and authorised;
- There are open/distributed budget loans or cash available in the accounts;
- the subdivision of the budget approved by means of which the payment is made is correct and corresponds to the nature of expenditure;
- all the supporting documents justifying payment exist;
- the signatures on the documents belong to the authorizing officer or the persons appointed by the former to exert attributions arising from the execution of the budget expenditure, according to the law;
- the beneficiary of the amounts is the one entitled according to the documents;
- the amount due to the beneficiary is correct;
- the employment and authorization documents have got the internal preventive financial control approval;
- the documents are drawn up with all the data required by the form;
- other conditions stipulated by law. [6]

The bookkeeping records of the lower secondary education institution under study show at the end of the month the employer's social security State contributions using the 645.01.00 account "Employers' contributions for social security". The expenses account mentioned is developed analytically using the sector codes, the symbol of the source of funding and the budgetary clasification structure, namely the codes of the functional classification and the economic one developed by Ministry of Public Finances as follows:

645.01.00	“The employers’ social insurance contributions”	The symbol of the account from the Plan of Accounts
02	The Local Budget	The Budgetary Code
A	Integrally from the budget	The financing source
65.00.04.01	Lower secondary education	The functional classification
10.03.01	Social insurance State contributions	The economic classification

For examples see the data in the following table:

Table 1. Excerpt from the budget of a lower secondary education institution – staff expenses – provisions for the year 2014

- thousand lei -

Code	Indicator Name	2014 Quarterly Budgetary Provisions				
		Total	quar. I	quar. II	quar. III	quar. IV
01	CURRENT EXPENDITURE	1.029,60	286,08	278,07	265,78	199,67
10	TITLE I Staff expenses	947,60	256,58	256,57	251,48	182,97
1001	Salary expenses in cash	736,91	199,66	199,65	195,66	141,94
1002	Salary expenses in kind	8	2	2	2	2
1003	Contributions, from which:	202,69	54,92	54,92	53,82	39,03
100301	State contributions for social insurance	153,27	41,53	41,53	40,69	29,52
100302	Contributions for unemployment insurance	3,60	1	1	0,98	0,62
100303	Contributions for health insurance	38,39	10,38	10,38	10,18	7,45
100304	Contributions for accidents at work and occupational diseases insurance	1,16	0,31	0,31	0,31	0,23
100306	Contributions for leaves and compensations	6,27	1,70	1,70	1,66	1,21
20	TITLE II Goods and services	82	29,50	21,50	14,30	16,70

According to the data from the table above, the total cost of the institution's social security State contributions for the fourth quarter of the year 2014 is 29, 52 thousand lei, therefore the approximate cost for each month of the quarter IV are 9.84 thousand lei, and the bookkeeping record is the following:

645.01.00.02.A. 65.00.04.01.10.03.01 “Employers’ contributions for social security”	=	431.01.00.02.A	9,84 thousand lei

At the end of each calendar month the lower secondary education institution under study will distribute the costs of the employers’ social security contributions on the patrimonial result account:

121.00.00 .02.A ”Patrimonial result”	=	645.01.00.02.A. 65.00.04.01.10.03.01 “Employers’ contributions for social security”	9,84 thousand lei

Actual expenses for the employers' State contributions to social security will appear in the financial statements drawn up by the public lower secondary education institutions in the "Patrimonial result account" because this is the reporting and summary document that provides information on expenditures, income, funding and patrimonial results of public sector entities.

3. The influence of the five percentage points reduction of rates of the employers' social security State contributions on the staff expenses

The educational institutions financed from public resources make expenses within the spending limits and for the destinations approved by the budgets to which they belong. For a strict control of the expenditure of public institutions subordinate to the local budget, including those of lower secondary education, the revenue and expenditure budget will be drawn up, making provisions for the expenses and revenues or only the expenses incurred each budgetary year, as well as the following three.

The analysis of the data presented in the table 2 Excerpt from the budget of a lower secondary education institution - current expenditure for the 2014-2017 period and table 3 The Structure of the current expenditure of a lower secondary education institution shows that the share of staff expenses in the total current expenditure for the period 2014-2017 is significant, this going from 91,18% to 92,18%.

Table 2. Excerpt from the budget of a lower secondary education institution – current expenses - provisions for the 2014-2017 period

- thousand lei -

Code	Indicator Name	Annual budget provisions 2014 -total-	Annual budget provisions 2015 -total-	Annual budget provisions 2016 -total-	Annual budget provisions 2017 -total-
01	CURRENT EXPENSES	1.029,60	1.078	1.077,50	1.151,50
10	TITLE I Staff expenses	947,60	984	982,50	1.061,50
20	TITLE II Goods and services	82	94	95	90

Table 3. Structure of the current expenditure of a lower secondary education institution

Code	Indicator Name	Structure of current expenses			
		2014	2015	2016	2017
01	CURRENT EXPENSES	100%	100%	100%	100%
10	TITLE I Staff expenses	92,04%	91,28%	91,18%	92,18%
20	TITLE II Goods and services	7,96%	8,72%	8,82%	7,82%

On the basis of table 1. Excerpt from the budget of a lower secondary education institution – current expenses - provisions for the 2014-2017 period, one can determine the structure of staff expenses, presented in table 4. Structure of the staff expenditure of a lower secondary education institution and the structure of expenses on contributions in table 5. Structure of the expenses on contributions of a lower secondary institution.

Tabel 4. Structure of the staff expenditure of a lower secondary education institution

Code	Indicator name	Structure of staff expenses in 2014				
		Total	Quar. I	Quar. II	Quar. III	Quar. IV
10	TITLLE I Staff expenses	100%	100%	100%	100%	100%
1001	Salary expenses in money	77,77%	77,82%	77,82%	77,80%	77,58%
1002	Salary expenses in kind	0,84%	0,78%	0,78%	0,80%	1,09%
1003	Contributions	21,39%	21,40%	21,41%	21,40%	21,33%

Tabel 5. Structure of expenses on contributions of lower secondary education institutions

Code	Indicator name	Structure of expenses on contributions in 2014				
		Total	Quar. I	Quar. II	Quar. III	Quar. IV
1003	Contributions	100%	100%	100%	100%	100%
100301	State contributions of social security	75,62%	75,62%	75,62%	75,60%	75,63%
100302	Unemployment contributions	1,78%	1,82%	1,82%	1,82%	1,59%
100303	Health social insurance contributions	18,94%	18,90%	18,90%	18,91%	19,09%
100304	Contributions for accidents at work and occupational diseases insurance	0,57%	0,56%	0,56%	0,58%	0,59%
100306	Contributions for leaves and compensations	3,09%	3,10%	3,10%	3,08%	3,10%

Staff expenses provisioned by the budget of the public institution of lower secondary education under study include salary costs in cash (basic salaries, compensations, fund pertaining to payment by the hour etc.), salary costs in kind (transport costs to and from the place of work etc.) and expenses on contributions. According to the data from table 4. Structure of the staff expenditure of a lower secondary education institution, salary costs in cash hold the largest share, namely 77,77%, followed by expenditure on contributions.

Expenditure on contributions comprise expenses on State contributions to social insurance, the costs of unemployment insurance contributions, expenses with contributions for health insurance, expenses with contributions for insurance against accidents at work and occupational diseases, and the costs for leaves and compensations. According to the data in table 5. Structure of expenses on contributions of lower secondary education institutions, expenditure on social insurance State contributions hold the largest share in the total expenditure on contributions, respectively 75,62% for the whole year 2014 and 75,63 % for the fourth quarter of 2014.

The bill that stipulates the provisions relating to the reduction of the contributions of employers to the social insurance State contributions will apply, if adopted by the Parliament, starting with 2014 revenues for the month of October. Thus, they will affect the costs of social security contributions and, implicitly, the staff expenses of the employers starting in October 2014, respectively in the last quarter of 2014.

According to the tax code in effect the contribution share for the social insurance payable by the employer for normal job conditions is 20.8%, and the amendments to the bill set a 15.8% share. These changes will affect the amount of costs for the State contributions to the social insurance for quarter IV, as well as staff expenses as shown in the following table:

Table 6. The influence of the reduction of the contribution share to the State social insurance on staff expenses

Code	Indicator name	Budget provisions for quar. IV 2014		Expenses modification	
		Share 20,8% (thousand lei)	Share 15,8% (thousand lei)	Absolute dimensions (thousand lei)	Indices
0	1	2	3	4=3-2	5=3/2*100
01	CURRENT EXPENSES	199,67	192,58	-7,09	96,44%
10	TITLE I Staff expenses	182,97	175,88	-7,09	96,13%
1001	Staff expenses in cash	141,94	141,94	0	100%
1002	Staff expenses in kind	2	2	0	100%
1003	Contributions, of which:	39,03	31,94	-7,09	81,83%
100301	Social insurance state contributions	29,52	22,43	-7,09	75,98%
100302	Unemployment	0,62	0,62	0	100%

	insurance contributions				
100303	Health social insurance contributions	7,45	7,45	0	100%
100304	Contributions for accidents at work and occupational diseases insurance	0,23	0,23	0	100%
100306	Contributions for leaves and compensations	1,21	1,21	0	100%
20	TITLE II Goods and services	16,70	16,70	0	100%

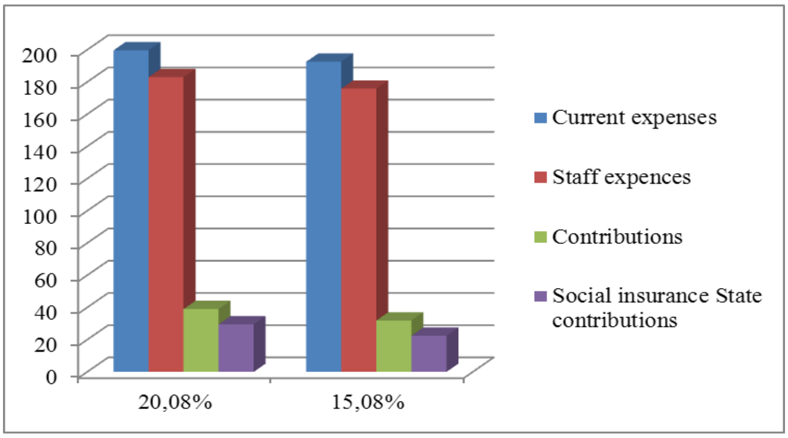

Fig. 1. The influence of the reduction of the share of the social insurance State contribution on staff expenses

Reducing the share of the social insurance contribution by five percentage points would result in a decrease of the expenditure on social insurance State contributions by 7,09 thousand lei, respectively 24,02%. This change will cause the reduction of expenses on total contributions and staff expenses by 7,09 thousand lei respectively, 18,17% and by 3,87%. In conclusion, the decrease of the share of social insurance contribution from 20.8 to 15.8 will cause a reduction in staff expenses by approximately 4%.

4. Conclusions

Units of lower secondary education funded from public resources are subordinate to local institutions whose expenses shall be provided and approved by the budgets. Expenditure in accordance with the economic criteria is divided into current expenditure and capital expenditure.

In the budgets drawn up by lower secondary education institutions, current expenses consist of staff expenditure and expenditure on goods and services, and staff expenses are the result of the combined salary costs in cash and those in kind, as well as the contributions. Thus, changing the share of the State social insurance will entail the chain reduction of the expenditures on contributions to the State social insurance, contributions expenses and staff expenses. This aspect will be favorable to lower secondary education institutions, because staff expenses have the highest share in total current expenditure and hence in total expenditure. The reduction of the staff expenses will allow the institution under study to save analyzed approximately 7,09 thousand lei from the total allocated expenditure for the fourth quarter of the year 2014, the quarter concerned by the bill which aims to reduce the employers' social insurance contributions by five percentage points.

From the point of view of the institution under study the reduction of the employers' contribution to social insurance by five percentage points is beneficial, for the reasons set out above. However, the effects of this step should be considered together with the effects of minimum salary increase on the staff expenses to see exactly the amount one may save from their application. Consequently, the research topic for a future paper could be linked to the effects of the reduction of the employers' social insurance contributions by five percentage points in the context of increasing the minimum salary.

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[5] A. Ştefănescu, M. E. Glăvan, M. Dumitru, I. C. Pitulice, *Public Bookkeeping*, ASE Publishing House, Bucharest, 2013, p. 183

[6] Ordinance of the Public Finances Ministry 1792/2002 for the approval of the methodological norms regarding the commitment, the validation, authorisation and payment of the expenditure of public institutions, as well as the organizing, recording and reporting of budgetary and legal commitments

[7] Government Emergency Ordinance 45/2003 regarding local public finances

European Institutions Involved In The Regionalization And Regionalization Policy Instruments

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Abstract: - One may believe that it is better to transplant European successful models, such as the Polish model, or other regionalization schemes in the other European countries. I believe the French tradition of our law and our national peculiarities would be more suitable to be considered for regionalization strategy based on creating new rules that will govern this new reform. So I endorse a traditional and temperate view considering phasing the necessary reforms in the medium and long period in which communities are prepared for their effective implementation. But in this paper I intend to present some interesting aspects of the regionalization process in the European Union. What is the future architecture of the EU in relation to development gaps, what can be done to find suitable solutions to the global crisis which is badly affecting regional and local communities? These are legitimate questions, and that is why we are looking to find adequate strategies for political, economic, social and administrative matters. Some countries were able to find good solutions that today make it possible to mitigate the adverse effects through administrative reorganization and a real decentralization, through social and political solidarity.

Key-Words: - transborder cooperation, administrative reorganization, region, regionalism, regionalization, regional decentralization, intermediay level, basic level.

J.E.L. Classification: - R 12, R 13, R 58

Introduction

In a "Europe of Regions" in which regions are public bodies pursuing solutions to excessive central administration trends and meant to combat corruption and bureaucracy, to bring citizens closer to the administrative decision, the process of regionalization represents a more advanced form of territorial organization in European countries today. Within EU we find different form of territorial organization, the first category of countries is that with no intermediary level, but only with the basic level and national level; the second category of countries has three levels of governance- basic, intermediate and national, conventionally called departmental system; the third category of states includes those with two levels of the interim administration, the four levels in total – the regional system.

Departmental system is purely a conventional/traditional regional system and is inspired from the administrative-territorial department existing in France, where department is the first intermediate link, and region is the second[2].

Based on a study by the European Parliament one could identify five types of regionalization[3]:

1. Administrative regionalization is characterized by the fact that the national government has created subordinated authorities or institutions working under his control or in his name. Examples are provided by countries such as Greece, Portugal, England, Sweden, Bulgaria, Estonia, Hungary, Lithuania, Slovakia, Slovenia.

[1] ,,The work received financial support through the project entitled Title "Horizon 2020 doctoral and postdoctoral studies: promoting the national interest by excellence, competitiveness and accountability in basic scientific research and Romanian applied "identification number POSDRU / 159 / 1.5 / S / 140106. The program is financed from the European Social Fund Operational Program Human Resources Development 2007-2013. Invest in People!,,;

[2] Corneliu-Liviu Popescu -,, *Constitutional issues on regionalization in Romania* "- Annals of University of Bucharest, January-March, 2002-I, pp. 38-39;

[3] Gerard Marcou - La régionalisation en Europe. The articles of the European Parliament Working - L-2929 Luxembourg, 1999 , April 2000, pp. 17-34;

2. Regionalization through local authorities. In this case, the specific functions of existing local and regional authorities meet, either by extending the initial responsibilities either by cooperation in a broader context, countries like Germany, Denmark, Finland and Ireland offering this example.

3. Regional decentralization. This system involves the creation or replacement of a new regional authority at a level above the existing territorial authorities. The typical example is offered by France and Eastern Europe, as countries like Poland, the Czech Republic, Slovakia, Bulgaria and Slovenia have introduced a new system of regional decentralization.

4. Political regionalization or regional autonomy. This regionalization is considered a model that tends towards regional autonomy and it is found only in certain areas of Portugal and the UK, specifically Scotland and Wales. The essential difference lies in the legislative powers granted by the constitutional system to this type of regions.

5. Federal regionalization. A federal state is in itself is an advanced form of regionalization, though its specific institutions are influenced by the trend of regionalization. Also, regionalization is not a uniform process. In some federal countries there may be several types of regions. Germany and Austria are federal states in EU which have also regions.

If the five types of regionalization are distinguished through the position they detain within national states it should be noted that the central governments are never absent, even though their powers are limited in countries where regional autonomy is strong. Regardless of how it performs, regionalization should not lead to the removal of the role that the central state plays in the regional development process.

Thus, we may say that regionalization aims at speeding up the economic development and creating a better balance in the distribution of wealth at national and European level by trying to raise the less developed areas. In turn, regionalism is usually bringing more power and more governance in the region in all its components, reinforcing identity and cultural aspects.

In the literature, regionalization process was given 3 meanings: *pseudo-regionalization* (understood as a form of de-concentration of state administration at the territorial level), *stricto sensu regionalization* (the administrative one that works at an intermediate power level between basic level ensured by cities, counties or municipalities, departments and national level represented by the government) and *political regionalization* (super-regionalization, that is no longer an administrative one halfway between regionalization and federalism). Regionalization policy includes the very large size of the regions, corresponding to spaces with a deep cultural, historical, economic identity, and then submission to the State of some competences intimate related to the exercise of national sovereignty, existence of legislative powers for elected regional assemblies, absence of the uniqueness of the regions at national level, abolition of administrative controls exerted by the state, the existence of an administrative control exerted by the region on lower level local territorial autonomous communities.[4]

The legal basis for regionalization in EU is the Regulation (EC) no. 1059/2003 of the European Parliament and of the Council of 26 May 2003, firstly amended by Commission Regulation (EC) no. 105/2007. Subsequently, NUTS was completed by adding new regional subdivision of the Member States that joined the EU in 2004 and 2007 (Commission Regulations (EC) no. 1888/2005 and no. 176/2008). Regulation (EC) no. 1059/2003 of EP and EU Council amended for the second time Commission Regulation (EU) no. 31/2011, which entered into force on 1 January 2012.

Regional statistics and regional indicators are the cornerstone of the European Statistical System. Their nature was established in the early 70s, based on negotiations between the national statistical bodies of the Member States and Eurostat, the statistical office of the European Communities. Statistics users have expressed a growing need for a better harmonization at the Community level in order to have comparable data for the entire EU. To facilitate collection, transmission and publication of regional statistics, a harmonized EU NUTS level has been created, replacing the system set up before by the Eurostat. The single legal framework established by Regulation (EC) no.1059/2003 was meant to ensure more stability of the regional statistics. It also establishes a common procedure for changing them in the future[5].

NUTS system provides a breakdown of the economic territory of the Member States, which includes their extra-regional territory. It is composed of parts of the economic territory that can not be considered as part

[4] Corneliu-Liviu Popescu - „*Constitutional Issues on Regionalization in Romania*, Annals of University of Bucharest, January-March, 2002-I, pp. 38-39;

[5]http://www.europarl.europa.eu/RegData/etudes/fiches_techniques/2013/050106/xml/04A_FT%282013%29050106_RO.xml;

of a region: airspace, territorial waters and the continental shelf, territorial enclaves (embassies, consulates, military bases), and deposits located in the territorial waters and operated units that are located in this area.

NUTS classification is hierarchical to the extent that it subdivides each Member State into three levels: NUTS 1, NUTS 2 and NUTS 3. Second and third levels are subdivisions of the respective first and second level. A Member State may decide to extend the hierarchical levels in detail. Definition of territorial units is based on administrative units existing in the Member States. Thus, an administrative unit designates a geographical area for which an administrative authority is empowered to take administrative or policy decisions in accordance with the established institutional and legal framework of the involved Member State.

Some of the existing administrative units, used for hierarchical NUTS classification are listed below[6]:

1 NUTS 1 "Gewesten / regions" in Belgium, "Länder" in Germany, "Continental", "Região dos Açores" and "Região da Madeira" in Portugal, "Scotland, Wales, Northern Ireland" and "Government Office Regions of England 'in the UK, "statisztikai nagyrégiók" in Hungary, "Regiony" in Poland, "uzemi" Czech Republic "economic regions" in Bulgaria.

2 NUTS 2 "Provincies / Provinces" in Belgium, "Regierungsbezirke" in Germany, "periphery" in Greece, "Comunididades y ciudades Autónomas" in Spain, "Regions" in France, "Regions" in Ireland, "Regional" in Italy, "Provincies" in the Netherlands, "Länder" in Austria, "tervezés-statisztikai régiók" in Hungary, "voïvodies" in Poland, "oblast" in Slovakia, "oblast" in the Czech Republic, "planning regions" in Bulgaria, "development regions" in Romania.

3 NUTS 3 "arrondissements" in Belgium, "Amtskommuner" in Denmark, "Kreise / Kreisfreie Städte" in Germany, "nomoi" in Greece, "provincias" in Spain, "départements" in France, "Regional Authority regions" in Ireland, "province" in Italy, "LAN" in Sweden, "maakunnat / landskapen" in Finland, "maakond" in Estonia, "megyék" and "megyei jogu varasok" in Hungary, "Regional" in Latvia, "apskritys" in Lithuania, "Gzejjer" in Malta, "podregiony" and "powiat" in Poland, "Region" in Slovakia, "statisticne regije" in Slovenia, "Region" in the Czech Republic, "oblast" in Bulgaria, "counties" in Romania.

If the population of a Member State is, as a whole, lower than minimum threshold for NUTS, that Member State constitutes a territorial unit NUTS at that level. If, for a given level of classification, there is no big enough administrative unit in a Member State that level is formed by joining an adequate number of administrative units smaller and in the same neighborhood.

Local administrative units LAU 1 and LAU 2 (LAU - Local Administrative Unit), sometimes referred to incorrectly NUTS 4 and NUTS 5, are the primary components of NUTS regions. Any extension of NUTS to LAU is not a completed project or even completely decided, the more some Member States currently are reorganizing existing administrative divisions to adapt to the socio-economic situation and to meet the needs of planning and development of the regions concerned, especially in terms of requests for grants or development aid granted by the European institutions or to facilitate cooperation between administrative institutions of different European regions.

Amendments to the NUTS classification may be adopted in the second half of the calendar year, respecting an interval of at least three years. Member States shall inform the Commission of any changes relating to administrative units or on other changes that could have an effect on NUTS classification (for example, when changing constituents, which may affect level limits of NUTS 3).

Changes to the smaller administrative units will change NUTS if they involve a population transfer of more than 1% of the concerned NUTS 3 territorial units.

The first amendment of the regulation was adopted in 2006 and entered into force on 1st of January 2008. The second amendment came into force on 1st of January 2012 and will be implemented by 31 of December 2014.

European Parliament insisted on numerous occasions that certain elements such as how are treated smaller administrative units deserve special attention. Establishing a NUTS level for smaller administrative units would allow to take better account of the real situation and to avoid disparities, especially those related to the fact that regional entities may be very different, in terms of population, although are ranked at the same NUTS level.

In its resolution from 21 of October 2008 on governance and partnership at national, regional and project-level in the field of regional policy, European Parliament called on the Commission to examine the relevant NUTS level to identify the area where an integrated development policy could be best implemented, including the areas of concentration of population and labor (cities, suburban areas, rural areas adjacent) and

[6] http://www.europarl.europa.eu/aboutparliament/ro/displayFtu.html?ftuId=FTU_5.1.6.html#_ftnref1;

territories justifying specific thematic approaches (e.g., mountain ranges, river basins, coastal areas, islands, areas where the environment was affected).

Opting for or against regionalization remains a purely political decision, associated to the idea of state organization. This idea evolved and is evolving according to the role played by the state, territorial communities and according to the importance of these entities in everyday life of citizens.

European States know either a single level of local government (Luxembourg, Finland and Portugal) or a two-tier system of local government (Greece, Denmark, Ireland, Netherlands, UK, Sweden) or a system with three levels of local government (France, Italy, Spain).[7]

1. Terminological aspects regarding the notions of region, regionalism and regionalization

The concept of region. The concept of region is not entirely unknown to the historical evolution of the state in general, especially in Western Europe, the concept of region had multiple meanings over time, making its legal regulation to be various and extremely diverse even today[8]. In the European Community, Council of Europe and the Assembly of European Regions one couldn't find a definition. No doctrine managed to universally define this concept. So it is difficult to define this term because states experiences on regionalization are different, taking into account local customs and wishes of the population. Some states do not recognize to the regions the quality of governance level, and some make various distinctions regarding the nature and functions of the regions, on which they developed different concepts.

In the first variant, region is the entity located on the lower level of the central state, having political representation, this being ensured by the existence of an elected council, or, if this is missing, by the existence of an association or a body set up at the regional level by communities located at a lower level[9]. This definition follows from art. 1 of the status, of European Regions Assembly applied rather in the German Landers, in the Dutch provinces, French regions or in England unitary councils, so that its usefulness does not appear as obviously. This does not foresee administrative regions, even no international provision from the system of Council of Europe or from European Union does not require a certain type of administrative-territorial organization.

In the second variant, the European Parliament adopted the Community Chart of Regionalization, which exposes an institutional and geographical concept of the region. Chart means by region that territory which, in geographical terms, is a clear entity or a similar group of territories, where there is continuity and whose population has some common features and the desire to preserve and develop its identity, in order to stimulate cultural, social and economic progress.

Region can be understood as a certain territory that does not overlap with the area bounded by administrative criteria, to identify this one needs other criteria such as: socio-economic degree, the interest which it presents for all socio-economic overview a particular type of economic or social activity, criteria of geographical, cultural, social and ethnographic order.

The concept of regionalism. Regionalism, whether acting within the borders of a country or across borders, represents the dynamics of present and future Europe. Its sources varies, but it is considered as a form of protest against the authority of national capitals by people who feel that are belonging in historical or cultural terms to a particular European space than to the nation state whose borders are the result of history[10].

Regionalism term refers to a concept and a policy that establishes a greater control over political decisions by regions, over political, economical and social decisions, usually through the creation of political and administrative institutions, with legislative powers[11]. Regionalism is defined as an ideology and a political movement recommending an increasingly region exercise control on political, economic and social affairs, on its territory. Regionalism means that the region exists above all in people's minds. It exists as a result of a historical and socio-economic process[12].

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[7] Dana Apostol Tofan, op. cit., pp 132-133.

[8] Simina Tanasescu , *Regionalization in Romania and its implications in the legislative framework* " Altera, Regionalization in Central and Eastern Europe, No. 19, 2002, page. 5;

[9]http://www.aer.eu/fileadmin/user_upload/PressComm/Publications/DeclarationRegionalism/.dam/l10n/ro/DR_ROUMAIN.pdf ;

[10] John Newhouse - *Europe's Rising Regionalism* - Foreign Affairs, January February 1997, pag. 67;

[11] John Loughlin - Europe of the Regions and the Federalization of Europe, Publius, Fall 1996, pag. 149

[12] Idem 8

The concept of regionalization. The regionalization and region terms cover political and administrative realities very different in European countries. Thus, regionalization can be a political regionalization (Spain, Italy), an incorporated regionalization, as a result of the creation of unitary state by the union of several countries, which keeps a certain individuality (UK), a diversified regionalization, with regional frameworks established not only on territorial and political criteria, but also on other criteria, such as language and culture (Belgium, before its transformation into a federal state), a classical administrative regionalization, through decentralization, creating regions as autonomous local regional authorities in administrative terms (France), a functional regionalization through devolution, creating regions as a simple districts of the state administration (Greece), a cooperative regionalism, creating regions as institutionalized forms of cooperation between local territorial collectivities (Romania).

Regionalization is a process by which operates the construction of autonomous action capacity aimed to promote a sub-national territory, supra-local also, by mobilizing economic resources or, where appropriate, competent identity of local or regional solidarities, in developing its potential. This process can work from existing institutions or from a new territorial cutout designed to better meet these objectives. It is always conditioned by the constraints performed by political and institutional framework, whose outcome may be governed by other stakes.

2. European institutions involved in the regionalization process

2.1. Regional representation in the European Union

Regions have a significant representation in the EU, so they act alone or form associations. Brussels is the headquarters of many institutions of the European Union; there are many delegations organized under embassy model which ensure that Community decisions do not harm their particular interests and they can get as many European funds. So we may mention the Council of Communities and Regions of Europe, the Conference of Regions Presidents which have legislative powers.

a) Regional representation in the Council of European Union

After the Maastricht Treaty and amending of Article 203 EC, ex 146 EC, Member States may be represented in the Council by provincial or regional ministers. This option is only recognized to the entities well defined as they are in Germany, Austria, Belgium, United Kingdom which have a state structure that allows the participation of such entities. Community provision implies the opportunity to delegate governmental powers belonging to state power, so that these regions can successfully invoke the principle of subsidiarity.

b) Committee of the Regions (CoR)

CoR is the Assembly of regional and local representatives in the European Union. Since its creation in 1994, under the Maastricht Treaty, CoR has been in constant evolution. Its role has been strengthened primarily by the Treaty of Amsterdam in 1997 and then by the Treaty of Lisbon, in 2009.

Its involvement throughout the EU legislative process was done through its mandatory consultation at all stages of the legislative process, by European Commission, Council of Ministers and European Parliament. Also, if the measure adopted does not comply, the CoR has the right to take legal action in the Court of Justice of the European Union.

It is interesting the fact that 50% of Europeans believe that elected officials at local and regional level are better able to represent them at European level[13].

Committee of the Regions is the EU's sub-national voice before other government bodies - national and European. It was able to impose as an interlocutor of the other European institutions or states. In terms of organization, the Committee of the Regions has a President, a Vice President, 353 members from 28 member states of the European Union, which represents local and regional communities (Article 263 EC Treaty).

Its members exercise their functions in full independence, in the general interest of the Community. The mandate of a member of the CoR is for 5 years, beginning on the effective date of his appointment by the Council. The mandate of a member or an alternate member is terminated by resignation, by the completion of

[13] http://cor.europa.eu/ro/about/Pages/key-facts.aspx

the electoral mandate on which he was appointed member of the CoR, or by death. A successor is appointed by the Council for the remainder of the term.

c) Council of European Communities and Regions (CECR) - Council of European Municipalities and Regions (CEMR)

Council of European Communities was founded in Geneva in 1951 by a group of European mayors, before opening the gates for regions and became the Council of Europe Communities and Regions (CECR). This Council is the largest organization of local and regional authorities in Europe and among its members has national associations of cities and regions (around 100,000 cities and regions).

CECR aims at a united Europe based on local and regional autonomy and democracy. To achieve this objective, it attempts to influence the future of Europe, strengthening local and regional contribution through an impact on community legislation and policies, encouraging the exchange of information at local and regional level, working with partners around the world. The nation state is not in the concerned field of the Council. CECR is the European oldest and largest association of local and regional authorities. This is an organization that brings together national associations of local and regional authorities from 40 European countries and is represented through them at all territorial levels - local, intermediate and regional.

Association of Communes of Romania became a member of Council in 2006 meeting in Innsbruck, attended by 41 mayors of communes from Romania.

Since its creation in 1951, the Council of European Municipalities and Regions (CEMR) promotes the building of a united Europe based on peaceful and democratic local self-government, the principle of subsidiarity and citizen participation[14]. CEMR, a nonprofit organization, was founded in 1951 by a group of European mayors under the name of "Council of European Municipalities", regions falling later in the structure of the board, adopted form maintained also today.

Today, CEMR is the largest organization for local and regional government in Europe, its members being national association (50) of regions and municipalities from 38 countries. These associations, all together, represent the interests of over 100,000 local and regional authorities. The primary goal of CEMR is to promote a strong, united Europe, based on democracy and the principle of decentralization and subsidiarity. The efforts of this organization stretch on a wide range of activities and themes, such as public services, regional policy, environment, transportation, equal opportunities etc[15].

2.2. Regions at the Council of Europe level - Congress of Local and Regional Authorities

Since 1957, the Council of Europe has decided in favor of local authorities representation among whom were also regions, and in 1994 founded the Congress of Local and Regional Authorities as an advisory body of the Council of Europe, replacing Conference of Local and Regional Authorities of Europe. It works based on the Statutory Resolution 2000 of Ministers Committee of the Council of Europe. Congress of Local and Regional Authorities is the voice of the regions and cities in Europe, which provides a place for dialogue where the local and regional elected representatives may discuss common problems, their experience and present their views to governments. It advises the Committee of Ministers and the Parliamentary Assembly of the Council of Europe on all aspects of local and regional politics, acting in close cooperation with national and international organizations representing local and regional authorities, organizing hearings and conferences at local and regional level to reach a wider public whose involvement is essential for the establishment of a genuine democracy. Equally, Congress of Local and Regional Authorities prepares regular country reports on the situation of local and regional democracy in all Member States, watches in particular upon the application of the European Chart of Local Autonomy, and supports the new Member States of the Congress in carrying practical tasks necessary to achieve an effective local and regional autonomy. Congress consists of two chambers: the Chamber of Local Authorities and Chamber of Regions. Bicameral assembly includes 318 members and 318 alternate members, each of them representing the choice of the more than 200,000 local and regional authorities of the Member States of the European Council. Rooms alternate in electing the Congress President for a term of two years.

Congress meets once a year in Strasbourg where there are hosted agreed European organizations delegations and those of some non-member states as special guests or observers. A standing committee,

[14] http://www.ccre.org/en/article/3_2 ;
[15] http://www.acor.ro/new/index.php?option=com_content&view=article&id=25&Itemid=55;

composed of representatives of all national delegations, meets between the Congress plenary sessions with various committees during the fall and spring.

The Congress is organized around four statutory committees:

a) *Institutional Commission of the Congress*, empowered in particular to prepare reports on the development of local and regional democracy in Europe, assisted by a committee of independent experts;

b) *Commission on Culture and Education*, responsible for media, youth, sport and communication;

c) *Commission for Sustainable Development*, responsible for environmental issues, landscaping and urban planning;

d) *Commission on Social Cohesion*, responsible for matters relating to employment, citizenship, inter-community relationships, equality between women and men, and solidarity.

Chamber of Regions has a working group on regions with legislative powers.

To carry out its duties, the Executive Director of the Congress is responsible for managing the budget and the activity of 40 officials of Congress Secretariat. Congress helps the member states of European Council to fulfill their duties to implement a genuine local and regional autonomy. The Congress is the spokesman of regions and municipalities, providing a framework for dialogue where local and regional elected representatives may discuss common problems, compare experiences and express their views in addition to their governments.

Congress advises the Committee of Ministers and the Parliamentary Assembly of the Council of Europe on all aspects of local and regional policy. Also, it works in close cooperation with national and international organizations, representing local and regional government, organizes conferences on specific topics and draws country reports, on local and regional democracy from member states, represents local and regional authorities interests in European policy making, observes local and regional elections.

3. Regionalization policy instruments

3.1. Structural Funds.

Structural Funds are financial instruments, administered by the European Commission, whose purpose is to provide support at structural level. Financial support from the Structural Funds is intended mainly to the less developed regions in order to strengthen economic and social cohesion in the European Union, in order to eliminate economic and social disparities between regions.

Structural Funds has a contribution on three strategic objectives of the Economic and Social Cohesion Policy of the European Union:

a) *Convergence or reducing disparities between regions*. States may apply for funding for regions having a GDP/capita below 75% of the European average.

b) *Regional competitiveness and employment*. States may apply for funding the regions not eligible for the convergence objective.

c) *European Territorial Cooperation*. Thematic objective supporting the adaptation and modernization of policies and systems of education, training and employment of labor.

Structural Funds have an important role in shaping EU regional policy. They are the means by which the EU Member States determine administrative remodeling of the Member States on behalf of a harmonious economic development of the Union. Thus, Union's regional policy depends largely on the management of these funds. We are witnessing an Europeanization of national regionalization policy. Structural Funds annually absorb almost a third of EU funds and are a serious incentive for this process.

3.2. European Grouping of Territorial Cooperation (EGTC).

EGTC was established in order to facilitate cross-border, transnational and interregional cooperation between Member States and regional and local authorities within them. They allow partners to implement joint projects, to exchange experience and to improve methods of coordination regarding planning. The legal basis is Regulation (EC) no. 1082/2006, based on the Article 175 of the Treaty of European Union.

EGTC may receive either task to implement programs financed by the European Union, or any other cross-border cooperation project with or without Community financial intervention. Examples of such activities include:

- implementation of cross-border transport facilities or hospitals;
- implementing or managing cross-border development projects;
- exchange of experience and good practice;
- managing of joint-border programs that may finance projects of common interest to EGTC partners.

Currently, there is a European grouping of territorial cooperation, the European Network of knowledge on urban policies (EUKN - European Urban Knowledge Network), whose members have a common geographical policy. EUKN is a platform for exchange of ideas and experience in urban development.

Building a European Grouping of Territorial Cooperation has several advantages to its members:

- allows members to constitute a single legal entity and to use a single set of rules to implement joint initiatives in two or more Member States;
- allows interested parties of two or more Member States to cooperate in joint initiatives without having to sign an international agreement subject to ratification by national parliaments;
- allows Member States to answer together and directly on calls for proposals launched under EU regional programs and to act in this context as a single management authority.

A European group of territorial cooperation may be formed from partners on the territory of at least two Member States, belonging to one or more of the following categories: Member States; Regional authorities; Local authorities; Public bodies; Associations consisting of bodies belonging to one or more of these categories.

European Groups of Territorial Cooperation are acting on behalf of their members, which adopt statutes through special agreements. These conventions describe the organization and its activities. The area of application of these activities is limited to cooperation field chosen by elected members. Furthermore, competence of the European Group of Territorial Cooperation powers is limited by the respective competencies of its members.

Applicable right for the interpretation and application of the Convention belongs to the Member State where the EGTC has its head office. Members decide whether EGTC is a separate legal entity or one with its tasks delegated to them.

Members adopt the estimated annual budget of EGTC, which is subject to an annual report prepared and certified by independent experts. Members are responsible in financial terms for any liabilities in proportion to their contribution to the budget.

So far, there were created 37 European groups of territorial cooperation in the 18 EU Member States, but the number continues to grow. In 2011 and 2012 there were created seven and six European Groups of Territorial Cooperation. EGTC Register is administered by the Committee.

Regulation (EC) no. 1082/2006 on EGTC has taken into account requests from the European Parliament, regarding particularly a clear definition of territorial cooperation, the need to specify the financial responsibility of the Member States and the jurisdiction and provisions on publication and/ or registration of EGTC statutes. The Council also decided to resume the idea expressed by Parliament, and to apply the law of the Member State where the EGTC has its registered office.

This year European Parliament and Council of EU have debated on the new proposal of European Commission amending the existing regulations on EGTC. Legislation on cohesion policy and structural funds is prepared in accordance with the ordinary legislative procedure, where the Parliament and the Council have equal powers.

European Parliament closely follows the effectiveness of creating new European groups of territorial cooperation. Moreover, in its resolution from 21 October 2008 on governance and partnership at national, regional and project level, in the field of regional policy, the European Parliament called on the Member States that have not yet adapted their national legislation to enable the implementation of the European groups of territorial cooperation (EGTC) to take such action in the shortest possible time.

Conclusions

Regionalization in the European Union is not found under a unitary form, but has some similarities in various fields, such as cross-border cooperation, infrastructure development etc. European regionalization process has in the foreground some economic aspects and control of disparities between the various regions. As main tools for implementing regional development strategy there are made available important financial resources, while also involving European institutions with expertise and associative forms of administrative entities that are part of a new administrative developments.

This process is one of major complexity, involving a change in the administrative concept, in a way to give up the nation state prerogatives in favor of new administrative entities. Through this process, the administrative decision is close to the local decision, which significantly reduces administrative centralization. Interestingly and somewhat surprisingly, there is an apparent contradiction, since we live in an era of globalization, but globalization is fostered by local regionalization process.

In a united Europe, full of diversity through state mechanisms and with so different administrative regulations, there are many commonalities, but still is looking for legal and functional formula to generate administrative performance in a period affected by the economic crisis.

So I think Romania will have to choose between European examples, the one where things went well and efficiently, to distinguish between the good aspects and the less good ones and take into account the particularities of the national administration. This requires solidarity, wisdom, professionalism, communication capacity with communities and obviously takes a lot of courage.

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Gauging the Vertical Specialization in EU Trade[1]

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Abstract: - The purpose of this paper is threefold. First, we review the mechanisms and determinants of vertical specialization (VS), as this has gradually become the dominant characteristic of international trade. Second, we underline that there is a rich literature regarding VS in EU trade, at aggregate and individual levels and research is advancing together with the instruments used to measure trade in value added. Third, our investigation brings to the forefront a classification of EU countries according to their GVC participation index, taking into consideration both upstream and downstream links. As a conclusion, the VS analyses help us better understand the interconnectedness among countries and industries by means of foreign direct investment, trade, labour migration and technology transfer.

Key-Words: - international trade, vertical specialization (VS), foreign direct investment (FDI), global value chains (GVC), global production networks, trade in value-added (TiVA), participation index, upstream links, downstream links.

JEL Classification: - E20, F14, F15, F60, F62, O14.

1. Vertical specialization – concept, mechanisms and determinants

The concept of vertical specialization (VS) was suggested for the first time by Balassa in 1967 in relationship with the process of joint fragmentation and globalization of production (Leitner, Stehrer, 2014). Nonetheless it became an established notion in the economic literature only in the 1990s with the meaning of foreign value added content of gross exports. Fragmentation or vertical disintegration (Krugman, 1995, p. 334, Feenstra, 1998, p. 35) or “production staging” (Fally, 2012) is linked to imported inputs embodied in goods (either final or unfinished) that are exported, which underlines the “multiple-border-crossing” inherent feature of trade (Hummels *et al.*, 2001, p. 77). Otherwise stated, VS means “slicing up the value chain” in order to “produce a good in a number of stages in a number of locations, adding a little bit of value at each stage” (Krugman, 1995, p. 334). Box 1 offers an overview of the VS and its main forms.

[1] The present paper is based on the author’s researches included in the study “EU: Reconfiguring the Trade Policy after the Treaty of Lisbon. Romania’s Position”, IWE, Romanian Academy. It will also be presented at the international conference organized by the IWE in December 2014.

Box 1: Principles of VS

1. *Goods are produced in two or more successive stages;*
2. *At least two countries provide value-added during the production process;*
3. *At least one country uses imported inputs in its stage of production;*
4. *A part of the resulting output or the complete production is exported.*

(Sources: Hummels *et al.*, 2001, p. 77, Araujo, 2009, p. 6).

International fragmentation of production takes many forms but all of them belong to one of the following categories:

1. Snakes – sequences of multiple production stages: repeated incorporation of intermediate goods in different countries, until they reach the final stage of production;
2. Spiders – hubs where components from various subcontractors are collected and assembled;
3. A combination of "spiders" and "snakes".

(Sources: Baldwin, Venables, 2013, Los, Timmer, de Vries, 2013, p. 8, Timmer *et al.*, 2014, p. 101).

The VS takes the shape of global value chains (GVC) which are mainly coordinated by transnational corporations (TNCs) – through their networks of affiliates, contractual partners, arm's length suppliers – and account for circa 80% of international trade (UNCTAD, 2013, p. 135). It results that *outsourcing, foreign direct investment (FDI) and trade (especially intra-industry trade) are the main components of VS*. According to Lopez-González, Holmes (2011) and Banga (2013), the VS can be decomposed into backward and forward linkages, which nature varies in line with a country's position in the value chain. GVCs include various countries, according to their specialization in particular stages of production (Yi, 2001).

The change of trade nature by means of VS has been one of the dominant characteristics of the international trade since the 1990s and it gradually accentuated during the recent years. Repetitive border crossing of intermediate products has caused and continues to spur the expansion/drop of trade value due to statistics, differing considerably from the effective trade (i.e. trade in value added). Economic actors' participation at global production networks determines both expansion of trade (at a faster pace than global GDP) in normal states of the world economy and leads to trade collapse during crises periods (such as the 2007-2009 one) (Godart, Görg, Görlich, 2009, p. 5).

International organizations, statistical bodies as well as independent research institutions and scholars have been trying to develop methods to capture the value added in each production stage in order to solve the *double counting issue* of supply-chain trade. Researchers' interest for VS has increased anew since the database on trade in value added (TiVA) and the World Input-Output Database (WIOD)[2] were launched in 2013.

As a matter of fact, VS can be analyzed from a twofold standpoint. One is the microeconomic perspective, namely the viewpoint of individual consumers and companies in order to understand their decision-making processes, interactions and choices. The other one is the macroeconomic perspective, related to the economy-wide phenomena.[3] In this paper we resort to the macroeconomic approach.

The VS propensity varies among product groups and is linked to factors such as: differences in factor endowments across countries, the 3T features of services (technology, transportability, tradability) (Anand *et al.*, 2012, p. 8), advances in technology and the overall reduction in transaction costs worldwide (Box 2). Trade in intermediate goods is one channel leading to a deeper global integration (Foster, Stehrer, Timmer, 2013), alongside trade in final goods, foreign direct investment (FDI) and other financial flows, labour migration and technology transfer.

[2] The first one is a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and World Trade Organization (WTO), while the second one is the outcome of a project financed by the European Commission under the 7th Framework Programme.

[3] According to Investopedia definitions.

Box 2: Determinants of vertical specialization

Perspectives of Transaction Cost Economics (set up by Coase and Williamson):
search of efficiency, i.e. companies keeping the cost of organizing production below market transaction cost, correlated with the overall reduction in transaction costs worldwide / vertical integration as a result of market failure;
Attitude and strategy towards risk, as vertical integration is considered a high-risk activity;
Nature of goods and services traded;
Results estimated by means of return on investment;
Differences in factor endowments across countries;
Trade liberalization;
Protectionist stances;
Evolution of wages and productivity;
Evolution of coordination costs;
Incentives for re-shoring (the reversal of fragmentation trend);
Macroeconomic policies;
Information flows;
Advances in technology – number of production stages increased due to the technological progress and this gave impetus to VS and trade.

(Sources: Own representation based on Nugent and Hamblin, 1996, pp. 16-18, Yi, 2001, p. 3, Lopez-González and Holmes, 2011, Anand *et al.*, 2012, Guan, Rehme, 2012, p. 198, Los, Timmer, de Vries, 2013, Timmer *et al.*, 2014).

Economic literature, though rich, does not offer enough evidence to what extent the vertical specialization is mainly regional or global (Los, Timmer, de Vries, 2013, p. 3). For instance, Timmer *et al.* (2014, p. 106) underscore that, in contrast to the 1990s, when the fragmentation took place mainly regionally (North America, Asia, Europe),[4] starting with the 2000s, this process became global, as developing economies emerged as important sources of intermediate products. These countries, especially the Asian ones, have increased their role both as hosts of offshoring activities and markets absorbing the final goods exports of developed countries (Foster *et al.*, 2013). On the contrary, Baldwin and Lopez-González (2013, pp. 18-20) consider that supply chain trade is regional and the three main regions involved in such a trade continue to be Factory Asia, Factory North America and Factory Europe.

Nevertheless, according to Timmer *et al.* (2014, pp. 106-112) the main features of vertical specialization worldwide are as follows:

(1) Foreign value-added content of production has rapidly increased since the early 1990s when it was first identified on a global scale;

(2) Fragmentation process slowed down in 2008-2009 but it gained momentum starting with 2010;

(3) Different product categories, countries and regions have distinct foreign value-added shares and trends;

(4) Due to technological progress, in most GVCs there is a firm shift towards value added by capital and high-skilled labour, to the detriment of low-skilled labour;

(5) Developed countries increasingly specialize in activities involving high-skilled workers, while emerging countries specialize more and more in capital-intensive activities.

And moreover:

(6) Supply-chain trade has shifted towards Factory Asia and away from Factories North America and Europe (Baldwin, Lopez-González, 2013);

(7) Factories Europe and North America tend to be more inward oriented, while Factory Asia is still extremely dependent on European and North American demand (Lopez-González and Holmes, 2011).

The main objective of this paper is to gauge the VS at the level of EU trade by means of literature review and TiVA database and stress the similarities and differences among the EU member states.

[4] Geographical regions such as South America, Africa, Middle East, Commonwealth of Independent States export mainly commodities and their participation at GVCs is limited.

2. Measuring the VS in EU Trade by means of TiVA database

2.1. Relevant literature concerning VS in EU Trade

There is a vast literature regarding VS. This can be classified in five main categories: (1) conceptual and analytical papers; (2) theoretical methods used to gauge the VS; (3) empirical research focused on one or more countries, regions (especially Asia) and groups of countries; (4) empirical research concentrated on sector-level analyses; (5) a combination of them.

As regards the VS in the EU and its member states, there is a significant literature yet not as large as that regarding Asian Factory. We enumerate below several relevant research papers focused on or linked to VS in EU and EU member states:

- ✓ Foster, Stehrer, Timmer (2013) – complex analysis of VS in the EU countries in a comparative manner, based on WIOD;
- ✓ Timmer *et al.* (2014) – several conclusions regarding EU as a whole and some EU member states;
- ✓ Ţurlea *et al.* (2014) – Romania case study; authors conclude that, in contrast with other parts of the world, the degree of vertical specialization in Romania declined between 2001 and 2011 and it remains below the average of other economies of the same size as regards VS;
- ✓ van Ark *et al.* (2012 and 2013) – interesting from the combination of demand-side and supply-side perspectives of GVC performance at EU level;
- ✓ Banga (2013) – evaluating participation in GVCs by forward and backward linkages in different countries, including the “big four” EU member states: Germany, France, Great Britain and Italy;
- ✓ Amador, Cabral (2008) – Portugal case study and also literature review including Minondo and Rubert (2002) for Spain, Breda *et al.* (2007) for Italy and other six EU countries, Cadarso *et al.* (2007) for nine EU countries;
- ✓ Breda, Cappariello, Zizza (2007) – VS in Germany (explaining the concept of “bazaar economy” coined by Sinn in 2004), France, Belgium, Italy, Netherlands, Spain and Great Britain;
- ✓ Fouquin, Nayman, Wagner (2007) – evidence from France: authors conclude that even if the production process in vertical, the number of stages in low, because French companies are more concentrated in sectors whose production processes are less separable, such as cars, basic chemicals and non-mineral products, while industries requiring a high fragmentation degree are minor industries in France.

2.2. TiVA database: a factsheet

In order to develop a statistical instrument to measure trade in value added terms, OECD and WTO launched in January 2013 the TiVA database (OECD-WTO, 2013). This is integrated into the larger framework of initiatives meant to better understand interconnectedness among countries and industries by means of trade. In this regard, OECD and WTO cooperate with other stakeholders, for example: WIOD group, Eurostat, United States International Trade Commission, Institute of Developing Economies-Japan External Trade Organization (IDE-JETRO).[5]

Although TiVA data are only estimates, they provide a clear image of international trade and the specific positions of different countries in GVCs. The database differentiates between the use of foreign inputs in exports and of domestic intermediates in exports to third countries (backward and forward participation, respectively) (De Backer, Miroudot, 2013, p. 5). Furthermore, TiVA is considered useful for various policy areas, such as trade policy, growth, development, employment, innovation, competitiveness and systemic risks (OECD, 2013).

TiVA includes 57 countries accounting for more than 95% of world output (including all G-20 member countries, EU-27 as a whole and its member states), 37 industries (18 manufactures and 15 services) and 5

[5] A detailed analysis regarding the international input-output datasets is presented in Sturgeon (2013).

years (1995, 2000, 2005, 2008 and 2009). The main indicators are as follows (De Backer and Miroudot, 2013, pp. 11-16):

- *Countries' participation in GVCs* (participation index developed by Koopman *et al.*, 2011) – VS share as import content of exports (value of imported inputs in the overall exports, i.e. backward participation or upstream links) and VS share as percentage of exported goods and services used as imported inputs by other countries (i.e. forward participation or downstream links). Most research papers refer to upstream links.
- *GVCs length or "average propagation length"* – estimated through an index taking value of 1 if there is a single production stage and incremental values according to the number of inputs from the same industry or other industries, weighted with the average of the sectoral production length. The highest fragmentation degree was identified in manufactures (television and communication equipment; motor vehicles; basic metals; textiles, leather and footwear; electrical machinery), while services sectors have generally shorter value chains (the sectors with the longest GVCs being: construction; hotels and restaurants; research and development; transport and storage). Obviously, countries specialized in such sectors obtain higher scores as regards participation in GVCs, as underlined in the next section of our paper.
- *Distance to final demand, i.e. a country's position in GVC or "upstreamness"* (Fally, 2012) – depending on specialization, countries may produce mainly inputs used at the beginning of the production process (including commodities but also design, research and development services and in this case they are situated upstream) or are for the most part involved in assembling activities or customer services (and consequently they are situated downstream).

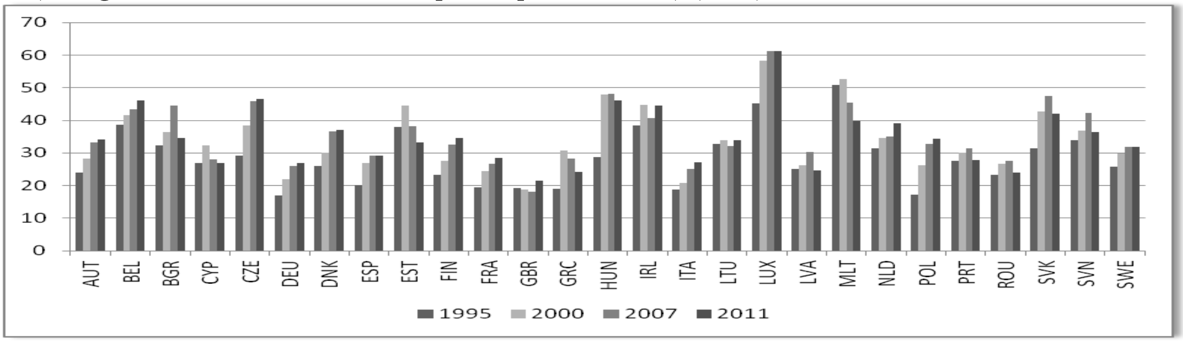
2.3. VS in EU trade

Di Mauro, Plamper and Stehrer (2013) consider that EU global value chains "are thriving", due to the following considerations: (1) The vast majority of EU member states recorded an increase of their participation index between 2000 and 2008; (2) The world financial and economic crisis interrupted only temporarily the VS of production and trade; (3) The importance of services (including those categories related to manufactures) has grown in terms of value added and job creation.

During 1995-2011, at the level of EU, foreign value-added was to a major extent sourced from other EU countries (Di Mauro, Plamper and Stehrer, 2013). Nevertheless, the share of non-EU sourcing has increased over the whole period, particularly during the crisis, reaching almost the level of intra-EU sourcing (Foster, Stehrer, Timmer, 2013, p. 27). Consequently, Factory Europe might soon become more outward oriented, as the importance of farshoring is increasing, to the detriment of nearshoring (Foster, Stehrer, Timmer, 2013, p. 27). In 2007 there were only 7 EU countries depending more on farshoring than nearshoring: Greece, Lithuania, Netherlands, Finland, Great Britain, Italy and Spain. In 2011, their number was double: Lithuania, Greece, Netherlands, Bulgaria, Finland, Italy, Great Britain, Spain, Ireland, Sweden, Germany, Cyprus, Denmark, Estonia (Foster, Stehrer, Timmer, 2013, p. 25).

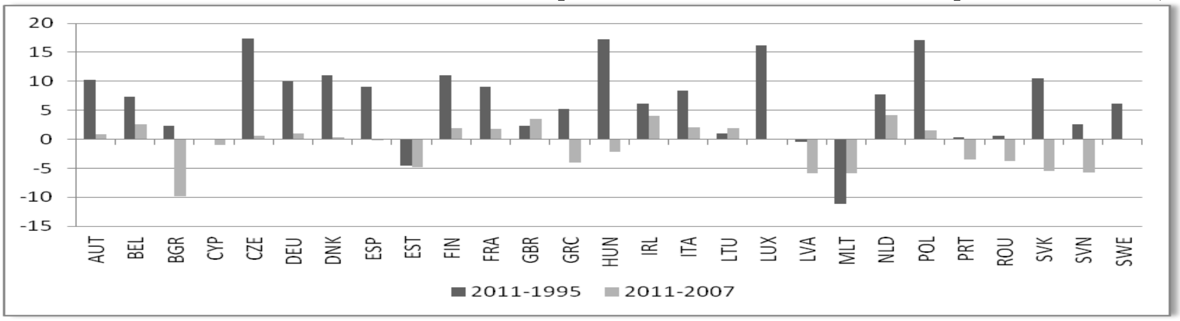
Resorting to data based on WIOD and included in Foster, Stehrer, Timmer (2013, p. 22), we may classify the EU countries in *eight main categories taking into consideration their backward participation at GVCs*: (1) high and increasing VS: Luxembourg; (2) medium and increasing VS: Czech Republic, Belgium, Netherlands, Denmark, Finland, Poland, Austria and Sweden; (3) medium and decreasing VS, especially due to the world financial and economic crisis: Hungary, Slovak Republic, Estonia, Malta, Slovenia and Bulgaria; (4) medium and increasing VS after the crisis: Great Britain; (5) medium VS but with ups and downs: Ireland; (6) low but increasing VS: Germany, France, Italy; (7) low VS with ups and downs: Lithuania, Spain and Cyprus; (8) low VS and decreasing after the crisis: Portugal, Latvia, Greece and Romania (Charts 1 and 2).

Chart 1: VS in EU countries in 1995, 2000, 2007 and 2011
(foreign value added content of exports/upstream links) (in %)



Source: Own representation based on Foster, Stehrer, Timmer (2013, p. 22).

Chart 2: VS in EU countries in 2011 as compared with 1995 and 2011 as compared with 2007 (in %)



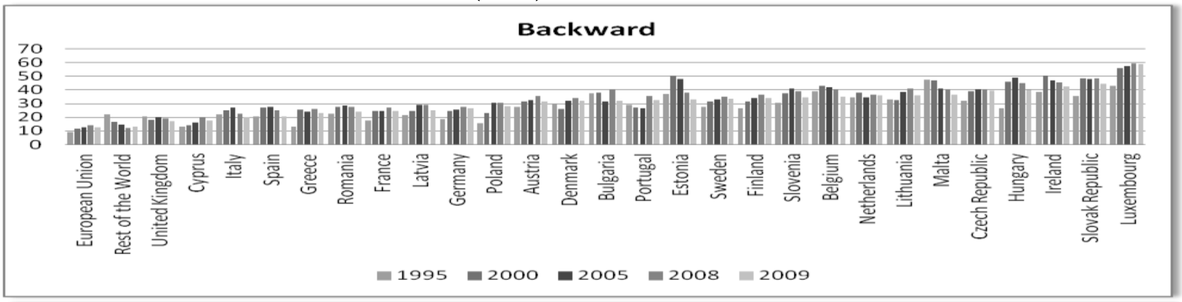
Source: Own representation based on Foster, Stehrer, Timmer (2013, p. 22).

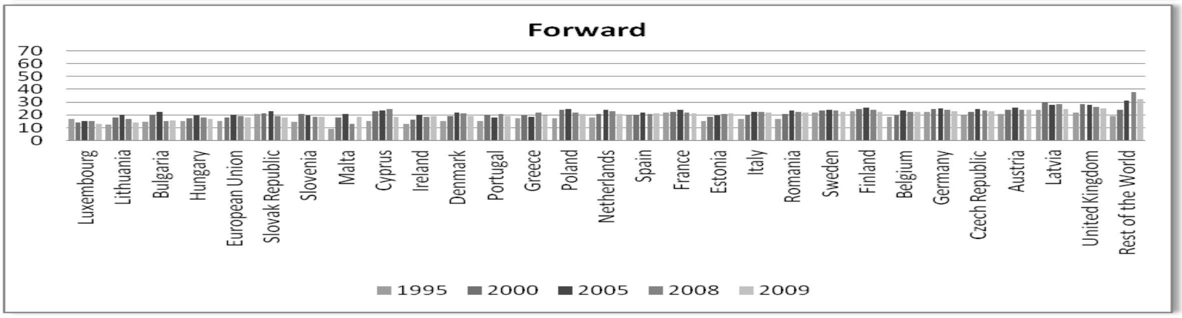
Van Ark *et al.* (2013) identify three groups of countries active in VS: (1) the Germany-led supply chain block (including Austria and Central and Eastern European countries); (2) a Mediterranean-France block, more inwardly focused and strongly dependent of the dynamics of domestic demand and (3) a Nordic/Benelux/UK/Ireland block with competitive export sectors, including services. From the viewpoint of employment linked to VS, van Ark *et al.* estimate its share at 20-30% of total employment, which is larger in the EU-12 as compared to EU-15 as regards trade in goods (especially in Bulgaria, Czech Republic, Slovakia and Slovenia, shares higher than 20%, also in Poland 17%) but larger in the EU-15 than in EU-12 as regards trade in services (p. 8). The same authors consider that EU-12 most countries have less employment dedicated to foreign market services demand, with a few exceptions (including Slovakia and Lithuania which have strong transportation industries).

Due to its own large production sector, Germany is less vertically specialized than other EU countries. Nevertheless, owing to high wages and rigid labour market, German companies resort to exporting intermediaries to foreign affiliates in lower-wage countries, where products are assembled and afterwards re-imported for final retouches and sold under the own brand on domestic and foreign markets. It explains why it was labelled as a "bazaar economy" (Breda, Cappariello, Zizza, 2007, p. 7). Nonetheless, other countries like France or Italy may be tagged with the same label.

The analysis presented above takes into consideration mainly the backward participation at GVCs. As already mentioned, TiVA offers a double perspective of countries' external links: upstream and downstream for 1995, 2000, 2005, 2008 and 2009. Although results are not identical with those offered by WIOD (partially due to the periods taken into consideration), we assume that the following conclusions are relevant at EU level: (1) Backward integration is much stronger than forward integration; (2) Smaller countries have higher backward GVCs participation rates than larger ones, while larger countries source less inputs from abroad than smaller countries (depending on the size of the economy, a larger or a smaller share of the value chain is domestic – De Backer, Miroudot, 2013). On the contrary, size of the economy is not necessarily a rule for higher or lower forward participation rates, which depends on sectors involved; (3) The "champion" in upstream links is Luxembourg (result attributable to financial intermediation), while the leader in downstream links is Great Britain (due to financial intermediation and chemicals and non-metallic minerals); (4) As of 2009, following Luxembourg, Slovak Republic, Ireland, Hungary, Czech Republic, Malta, Lithuania, Netherlands, Belgium, Slovenia, Finland, Sweden, Estonia, Portugal, Bulgaria, Denmark and Austria (sorted in descending order) recorded higher *backward GVCs participation rates* than the others: Poland, Germany, Latvia, France, Romania, Greece, Spain, Italy, Cyprus and United Kingdom. (5) As of 2009, following United Kingdom, Latvia, Austria, Czech Republic, Germany, Belgium, Finland, Sweden, Romania, Italy, Estonia, France, Spain and Netherlands (enumerated in descending order) registered higher *forward GVCs participation rates* than: Poland, Greece, Portugal, Denmark, Ireland, Cyprus, Malta, Slovenia, Slovak Republic, Hungary, Bulgaria, Lithuania and Luxembourg (Chart 3).

Chart 3: Backward and forward participation index at the level of EU countries in 1995, 2000, 2005, 2008 and 2009 (in %)





Notes: According to TiVA definitions, backward participation index represents the contribution of foreign industries to the exports of a country by looking at the foreign value added embodied in the gross exports. Forward participation index provides the share of exported goods and services used as imported inputs to produce other countries' exports.

Source: Own representation based on OECD-WTO (2013).

Explanations for such hierarchies reside in: the nature of dominant industries (whose production processes are less separable or, on the contrary, highly fragmented)[6], specialization patterns and trade linkages.

3. Conclusion

This paper represents a basis for further researches on VS in EU trade. We consider necessary deeper analyses regarding sources of foreign value added in the EU member states (EU versus non-EU), trends in backward and forward GVCs participation and also their sectoral distribution.

Resorting to data presented by Foster, Stehrer and Timmer (2013, p. 22) regarding backward participation, we classified the EU countries in eight main categories: (1) high and increasing VS: Luxembourg; (2) medium and increasing VS: Czech Republic, Belgium, Netherlands, Denmark, Finland, Poland, Austria and Sweden; (3) medium and decreasing VS, especially due to the world financial and economic crisis: Hungary, Slovak Republic, Estonia, Malta, Slovenia and Bulgaria; (4) medium and increasing after the crisis: Great Britain; (5) medium VS but with ups and downs: Ireland; (6) low but increasing VS: Germany, France, Italy; (7) low VS with ups and downs: Lithuania, Spain and Cyprus; (8) low VS and decreasing after the crisis: Portugal, Latvia, Greece and Romania. The same source revealed that in 2011 there were 14 EU countries more depending on farshoring than nearshoring (as compared to only 7 in 2007): Lithuania, Greece, Netherlands, Bulgaria, Finland, Italy, Great Britain, Spain, Ireland, Sweden, Germany, Cyprus, Denmark, Estonia. In the

[6] As suggested by Fouquin, Nayman, Wagner (2007) for instance.

near future, Factory Europe might become more outward oriented, as the importance of farshoring is increasing, to the detriment of nearshoring.

Under these circumstances it might be relevant to determine the main factors leading to this result. At the same time, it is of interest to conduct an investigation in order to find out whether countries more depending on farshoring are becoming more rapidly integrated into the GVCs than those focused on nearshoring.

As statistical instruments used to measure trade in value added terms are evolving, researches regarding VS in trade will become more accurate. Future dynamics at the level of VS in EU trade will continue to be determined by factors such as: perspectives of Transaction Cost Economics, attitude and strategies towards risk, changes at the level of factor endowments across countries, strongly linked to the evolution of wages and productivity as well as advances in technology.

In spite of its inherent limitations, TiVA database underscores that the level of backward integration is much higher than in the case of forward integration. That is the main reason why it is easier to classify the EU countries taking into consideration their backward participation at GVCs rather than their forward participation.

VS analyses will further help us better understand the interconnectedness among countries and industries by means of foreign direct investment, trade, labour migration and technology transfer.

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Strategic Partnership Between The European Union And United States Of America

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Abstract:- European Union is one of the largest markets in the world for the import of goods and services, especially those with high added value, is the area with the biggest investment of foreign companies and one of area with the largest number of foreign investments abroad. The European Union is still a market with a huge attractiveness for investors. EU and US seek to strengthen mutually beneficial economic partnership and have the ability to consolidate the two economies. Through strategic partnerships, EU seeks to create alliances to achieve its foreign policy objectives globally.

Key-Words: - strategic partnership, grand strategy, trade, investment partnership, trilateral, cooperation.

1. Relation between EU and United States

Relations between the EU and the United States during the crisis have not been consistent, each of the two being primarily concerned with domestic affairs. America put her efforts towards areas more attractive in economic terms, such as Middle East and Central Asia, while Europe was being interested only to the internal crisis. The size and nature of the synchronized global crisis highlighted clearly as possible the high degree of interconnectivity that currently exist between the financial markets and commodity markets (goods and services), which was in turn a factor of pervasive negative effects of crisis on all regions of the world [1].

Concerning United States foreign policy we can assume that EU is the closest ally. In 1999 was founded the Transatlantic Legislators Dialogue (TLD). TLD brings together MEPs and members of the US House of Representatives, with inter biannual meetings, which are held alternately in the US and Europe. Even if the EU and the United States have the same vision in all matters of foreign policy, they remain the most reliable and most important allies reciprocal. Their connections resisted foreign policy over decades, despite changing political configurations and geostrategic changes on both sides.

EU-US cooperation in foreign policy focused on the Middle East, both promote a solution for Palestine and Israel which implies the existence of two states. EU and US have also worked to limit Iran's nuclear program and respond to global crises, including those in the Sahel, Syria and the East of Africa. From the "Arab spring", the EU and the US have tried to coordinate efforts aimed to ensure that post-revolutionary countries in Middle East and North Africa will continue their democratic transformations and constitutional reforms. US acted in the same way as a partner of the EU Eastern neighborhood, contributing to pressure for policy reforms, particularly in Ukraine and Georgia.

In terms of political and military cooperation it became more intense after the dramatic events in Ukraine, especially, the illegal annexation of Crimea by Russia Federation in March 2014. The US has proven to be a reliable partner in security for a number of EU Member States, as demonstrated by collaboration between the North Atlantic Treaty Organization allies (NATO). Profitable synergies were realized with EU missions in the Common Security and Defense Policy (CSDP) and, in particular, between NATO and CSDP, in theaters such as Afghanistan, Iraq, Kosovo, Bosnia and Herzegovina and the East of Africa.

In TLD, were exchanged views on how it can ensure long-term sustainability of public finances and how to strengthen coordination in financial regulation, another common concern of the EU-US constitutes a cyber security and Internet freedom. Here, the discussion often focuses on three areas: computer security cooperation, harmonization of trade "Information and communication technologies' (ICT) and closer cooperation on global governance in promoting an agenda on Internet freedom. Harmonization of ICT standards is likely to capture much of the discussion on "Transatlantic trade and investment partnership" TTIP.

The "Transatlantic Trade and Investment Partnership" (TTIP) tries to remove barriers to trade (tariffs, unnecessary bureaucracy, excessive regulation, restrictions on investments, etc.) in a variety of sectors, to facilitate the buying and selling of goods and services between the EU and US.

The treaty will refer specifically to the following sectors: automotive industry, chemicals trade, pharmaceuticals trade, commerce and investment in raw materials, energy trade and investment, agricultural products and foodstuffs trade. In almost all of these areas, it raises the issues of cooperation in achieving technological progress and ensuring environmental protection.

A trade agreement and investment between the first two economies in the world who detain together approximately 50% of world GDP and for nearly a third of total world trade, provides an opportunity to stimulate economic growth and create jobs both sides of the partnership.

2. Partnership between EU-US - an agreement with positive effects for these two economies

In 2012, the EU has defended the position of the second most important trading partner of the US in the imports of goods – first place China, other partners being Mexico and Canada – members of Free Trade Agreement North American (ALSN).

Before deciding to negotiate a trade agreement, EU has conducted an assessment of the impact of the potential effects of the agreement. This evaluation examines not only the potential economic impact, but also social and environmental impact possible. The evaluation examined what might happen as a consequence of different degrees of trade liberalization between the EU and the US. In each case, the overall result for the EU was positive, but it was clearly that a greater degree of liberalization would be directly proportional to an overall positive result.

Based on the independent report published in March 2013 by the Centre for European Policy Research (London) The European Commission estimates that the trade partnership between the US and EU, companies could save millions of euro, it will create thousands of new jobs after implementation Full Partnership, a European average household would annually earn more than 545 Euros now, the European economy would increase by up to 120 billion dollars annually. The additional economic growth would be beneficial for everyone, whereas strengthening trade relations contribute to strengthening European economies, supply and demand will grow without this entail public spending or additional borrowing.

From the point of view of the EU, the US was the most important destination for EU exports in 2012, absorbing 17.3% of total EU exports (compared with 8.5% in China). However, the US ranked only third among EU import partners, providing 11.5% of the goods imported by the EU, after China and Russia (which provided 16.2% and 11.9% of total EU imports).

In the period 2011-2012, EU services exports to the US have increased, as well as EU services imports from the US. In 2012, the EU recorded a surplus of 11.2 billion in trade in services with the USA.

Table no 1. EU-US Trade 2009-2012 (billion EURO)

Year	EU imports from the US	Exports of goods by the EU to the US	EU balance (goods)	EU Imports of services by US	Exports of services by the EU to the US	EU Balance (services)
2009	206,3	159,2	- 47,1	123,9	119,1	- 4,8
2010	170,4	242,3	+ 71,9	130,5	127,1	- 3,4
2011	184,2	260,6	+ 76,3	138,4	143,9	+ 5,5
2012	205,8	292,2	+ 87,0	145,6	156,8	11,2

The source: European Commission, DG Trade

EU and the US are each other's largest investors. You might say that direct bilateral investment - which by nature is a long-term commitment - is the driving force of transatlantic trade relations. This is reinforced by the fact that trade between parent companies and subsidiaries of EU and US account for over one third of the total transatlantic trade. Estimates indicate that EU and US businesses operating in the other partner provides employment for 14 million people.

Table no 2. Stocks EU-US bilateral investment (billion EURO)

Year	**US FDI stocks in EU**	**EU FDI stocks in the US**	**Balance**
2011	1 344,3	1 421,3	77,0

The source: European Commission, DG Trade

3. US-EU relationship in agriculture

Food security, biodiversity conservation and climate change are fundamental issues that interest both the EU and US, and the common agricultural policy must address and integrate them, even if the methods may be different objectives are the same.

The Common Agricultural Policy aims to support agriculture to ensure food security (in a context of climate change) and to ensure sustainable and balanced development of all European rural areas, including regions facing difficult production conditions.

European Union is by far the largest importer of food products in the world. Through its development policy, the EU supports developing countries to sell their agricultural products in the EU. This is achieved by granting preferential access to its market. Each year, the EU imports from developing countries agricultural products worth around 60 billion Euros, more than the other major importers in one place USA, Japan, Canada, Australia, etc.

The Common Agricultural Policy is reformed to in order to strengthen the competitiveness of the sector, to promote sustainable agriculture and innovative to support employment and growth in rural areas, increasing agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and optimum utilization of the factors of production, especially labor forces.

Reform of the Common Agricultural Policy of the EU and high commodity prices had the effect that both sides were prepared to discuss agriculture and to negotiate the opening of their markets.

In the EU, agriculture is a permanent occupation for 12 million farmers. Together, agriculture and food industry - which is highly dependent on agriculture for supply – represent 6% of EU GDP, 15 million businesses and 46 million jobs, by comparison, the US has only 2 million farmers for an average farm size of 180 ha.

This must be multifunctional agriculture. It must respond to citizens' concerns about food (availability, price, variety, quality and safety), to protect the environment and allow farmers to earn a living from their work.

In agriculture sector, US plant health regulations prohibit the importation in US of apples, also US food safety rules banning the importation of several cheeses from Europe. Removing tariffs and other trade barriers will allow European producers to sell more Americans that will be beneficial for business and creating jobs. Removing barriers to US products and investment will mean more choice and lower prices for the citizens of Europe. It is clear that both sides will benefit from greater openness of their markets trade and investment. It will be a win-win situation for both parties.

4. Conclusions

Additional economic growth that should result from transatlantic trade and investment partnership will bring benefits for all. Boosting trade is a good way to encourage our economies by creating applications and offers enhanced, without the need to increase public spending or lending. Transatlantic Partnership trade and investment would be the cheapest economic stimulus package can imagine.

Although tariffs between the EU and the US are already small (average 4%), the combined size of the EU and US economies and exchanges between them means that the elimination of tariffs will be beneficial for creating jobs and economic growth. The area where these negotiations could bring real savings for businesses, create jobs and bring better value to consumers is that of eliminating unnecessary rules and regulations - the so-called "non-tariff barriers' (BNT). Non-tariff barriers are the result of differences in regulations and standards. Removing them can be complicated because, although both the EU and the US have well developed systems to ensure safety and consumer protection, they often adopt different approaches to achieve the same objective. Obligation to comply with two separate sets of rules can cost time and money.

The cost of carrying unnecessary bureaucracy can add the equivalent of tariffs amounting to 10-20% from the price of goods, an additional expense paid by the consumer. In fact, an independent study conducted by the Centre for Economic Policy Research based in London entitled "Reducing barriers to Transatlantic Trade" (Reducing barriers to transatlantic trade) calculated that up to 80% of the economic benefits would come from reducing TTIP costs imposed by bureaucracy and regulations and the liberalization of trade in services and public auctions.

Practical examples of this would be:

- Both the EU and the US have higher standards for vehicle safety. The partnership would allow the EU and the US to mutually recognize standards so that vehicles that have been proven safe for the sale of a part of the Atlantic could be sold to the other side without having to pass additional tests or to be adapted to meet additional specifications;

- European construction firms -Access to public tender offers in the US could mean that they could compete for large projects in construction and public transport in the US.

- European businesses, workers and citizens would benefit greatly from a more open US market. The EU has many extremely competitive businesses, producing high quality products and services, including many leading sectors worldwide and renowned brands.

Despite strong economic integration between the EU and the US, international experts assessed that bilateral partnership is weak because the Union's strategy towards the US is not clearly defined [7].

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Policies For Limiting Climate Change And Directions For The Electricity Sector

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Abstract: - The success in achieving the Europe 2020 national objectives depends on the implementation at national level of structural reforms needed to accelerate a growth that is smart, sustainable and favourable to inclusion. The national reform programmes (PNR) represent an obligation for each Member State to "translate" at national level the Europe 2020 objectives. In the Romanian National Reform Programme were established, among other priorities, the improvement of the quality of life through sustainable management of renewable resources and mitigation of climate change effects, increasing the energy efficiency, the management of natural resources and pollution reduction.
In this paper there will be analyzed the general objectives of the climate change limitation and combating, the strategies to reduce climate change, implemented at the global, european and national level, and also directions for development of the electricity sector. In terms of global strategies, the main measures adopted by the United Nations Framework Convention on Climate Change, and through the major Conferences of Parties will be analyzed. At the European level, will be examined the Community objectives relating to the reduction of greenhouse gases emissions and the adopted measures to meet the proposed targets, and at the national level there will be evaluated the measures through which Romania implements the policies set at the global and community level. Regarding the directions of development of the energy sector at the European level there will be exposed and analyzed the measures imposed by the European Commission and the Member States, and at the national level, the main directions for action of the energy sector in Romania.

Key-Words: - energy, policies, climate change, mitigation

Jel Classification: - Q28, Q42, Q48, Q56, Q58

1. Introduction

Climate change is a long term complex process of change of the climate elements (temperature, precipitation, increased frequency and intensity of extreme weather phenomena, etc.), mainly attributed to the increase of greenhouse gases emissions (GHG) generated by human activities that have led to imbalances in the atmosphere and favored triggering the greenhouse effect.

The energy sector has a major contribution in the generation of greenhouse gases (GHG) emissions, mainly through the combustion of fossil fuels. The reduction of polluting emissions resulting from the combustion of fuels represents an important mean of protecting the environment and improving the health status of the population, these two elements representing the major trends within the sustainable development strategy of the society.

On the other hand, fossil fuels are a limited resource, costly and often located away from the place of use. At present, worldwide, the production of energy from alternative or renewable sources is gaining momentum. Whereas the conventional processes of generating energy from fossil fuels are well developed, the short-term trend is to promote efficiency and the rational use of energy, with the later evolving towards capturing and storing carbon dioxide in order to reduce emissions of greenhouse gases. The long-term trend is to replace non-renewable resource consumption with alternative technologies based on the use of renewable resources and minimise the emissions of pollutants. The use of alternative technologies is limited by current technology, level of economic efficiency and environmental constraints.

Climate change can have a considerable impact on economic growth and development. To act in order to limit the climate change phenomenon and/or to limit its effects should be a priority for every country in the world, and the action methods should not hinder the economic growth of rich or poor countries. Being a global phenomenon, climate change requires a global response based on a common understanding of the long-term objectives and of the agreements ratified worldwide.

2. Policies to combat the climate change

2.1. General objectives of limiting and combating climate change

As noted above, climate change is a complex long-term proocess of changing climate elements, mainly attributed to the increase in GHG antropogenic emissions that has led to imbalances in the atmosphere and favored triggering the greenhouse effect.

Many human activities, but especially burning of fossil fuels and destroying forests to create farmland, can cause rising levels of carbon dioxide and other gases that retain heat in the atmosphere. The accumulation of these gases with warming potential intensifies the natural greenhouse effect. That leads to increasing temperature on Earth and to the appearance of climate changes.

The objectives of the global strategies in this area concern firstly the creation of the framework which leads to ***reducing the phenomenon of climate change*** and secondly the ***adaptation to the impacts caused*** by climate changes.

Reducing the phenomenon of climate change. There are several ways to reduce the climate change phenomenon that mainly aimed at reducing GHG emissions, and the stimulation of the sinks.

a. reducing greenhouse gases emissions. The proposed measures for reducing greenhouse gases emissions, are among the most diverse. These measures are related to reducing the consumption of fossil fuels for energy production, promotion of renewable energy sources, development and promotion of technologies with low or zero emissions, increasing the proportion of fuels obtained from renewable raw materials, limiting/prohibiting the use of nitrogenous fertilizers and replace them with manure, coupled with the manner by which the application is made on the field, reducing emissions from landfill waste, carbon capture and storage, as well as increasing the energy efficiency.

b. increasing quantities of carbon dioxide removed by siks, by limiting deforestation and afforestation. The United Nations Convention on Climate Change (UNFCCC) acknowledges the need to protect forests as part of efforts to combat climate change. The forests need to be populated with species of trees that are less vulnerable. The tree species resistant to climate change need to resist to new types of pests also. In addition, Directive 2003/87/EC, as amended, indicates that some of the amounts obtained as a result of the auction of quotas will be used for measures to avoid deforestation and increase forestation in developing countries. [1]

Adequate adaptation to climate change. Adaptation represents an action through which the society learns to respond to the danger caused by climate change. This danger is real, and can affect many essential sectors of human existence.

Adaptation requires action at all levels: local, regional, national and international, as well as in all sectors of activity. At european level, the policy of adapting to the effects of climate change was launched in June 2007 with the initiative developed by the European Commission through the Green Paper followed by the White Paper in 2009 (adaptation to climate change: Towards an European framework for action). [2]

Among the measures to facilitate adaptation to climate change are the following: the transfer of clean technology, appropriate water management, mitigation of effects caused by extreme weather conditions, adapting agriculture to climate change, adaptation and changing the population mentality, estimating the cost of climate change for each sector of activity.

2.2. Global level policies

The United Nations Framework on Climate Change (UNFCCC), adopted in 1992 at the Earth Summit in Rio de Janeiro and entered into force in 1994, lays down the general framework for intergovernmental action in response to the challenge posed by climate change. On this occasion it was confirmed that the climate system is a shared resource of mankind whose balance can be affected by anthropogenic emissions of carbon dioxide and other greenhouse gases. This Conference was followed by the Conference of Parties (COP), the most important of these conferences being displayed below.

The third annual Conference of the parties to the framework Convention adopted ***the Kyoto Protocol (KP),*** which defines the targets for greenhouse gases (GHG) emission levels to each of the parties. The Protocol provided an implementation process, in the form of a comprehensive strategy for limiting and reducing greenhouse gases emissions, through the setting of specific targets and flexible mechanisms.

The fourth annual Conference of the Parties to the framework Convention was held in November 1998 in Argentina, at Buenos Aires and had as purposeful the ***Buenos Aires "Action Plan"***, the plan which addresses the following strands:

- The financial mechanism - Global Environmental Fund (GEF) has been designated as the entity responsible for the operation of the financial mechanism of the Convention in the field of financing;
- The development and transfer of technologies;
- Addressing the needs of the developing states, including the minimization of negative the impact;

The seventh Conference of Parties, which took place in 2001, in Marrakech in Morocco has completed most of the details of the ***Buenos Aires Agreements.***

The Conference of Parties in Bali (COP 13), which took place in December 2007, adopted a roadmap, ***"Bali Road Map",*** which includes the Bali Action Plan. This plan initiates a comprehensive process to enable the implementation of the Convention on a long-term basis.

With the approaching of the end of the commitment period established by the Kyoto Protocol, at the ***Copenhagen Summit*** in December 2009, the issue of a post-2012 agreement to combat climate change was raised.

The international community has decided to tackle the challenge of climate change over the long term, collectively and comprehensively over time and take concrete steps to accelerate a global response. The 16th Conference of the Parties, which was held in Cancun, Mexico, in 2010, has adopted significant agreements in this regard. ***The Cancun Agreements*** represent significant steps in the implementation of plans to reduce greenhouse gases emissions.

The 18th Conference of Parties to the Convention took place in November 2012, in Doha, in Qatar. During the Conference it was agreed, as requested by the European Union, on a work plan for the year 2013 and after, under ***the Durban Platform***. The platform has a dual mandate: to draw up a new global agreement on climate change, with the participation of all countries, to be adopted in 2015, and to identify ways to achieve ambitious reductions in global emissions by 2020, in order to reduce the gap between current emission commitments and measures to limit global warming to less than 2°C. [3]

At the last ***Conference of Parties (COP-19)***, which was held in Warsaw in November 2013, Governments have taken important decisions to ensure adoption of a common agreement regarding climate change in 2015. The objectives of this agreement are the following:

- Involvement of all Parties in the global effort to reduce emissions rapidly, in an amount sufficient to decrease the risk of climate change, at the same time improving the capacity to adapt to this phenomenon;
- Stimulating rapid action for combating climate change.

In this line, Governments have agreed to report their contributions before the ***Paris Conference in 2015***. Moreover, the instruments on monitoring, reporting and verifying of internal actions were completed and are to be implemented, thus providing a solid base for the agreement in 2015.

2.3 Policies at the European Union level

For the European Union, combating the phenomenon of climate change is an essential element for economic and social development, which is reflected both in the actions carried out in the past few years domestically and internationally, as well as in its policy on climate change. Within the EU, legal acts were adopted that demonstrate the importance that the Union attaches to limit climate change.

European Union objectives concerning the greenhouse gases (GHG) emissions. The 15 countries that were Member States when the Kyoto Protocol was signed (1997), have undertaken a reduction of emissions in the first commitment period of the Protocol (2008-2012), with 8% compared to the reference year (1990 in most cases). In 2011, the last year for which data are available, the EU-15 emissions were 14.9% lower compared to the reference year. According to the EEA for 2012, EU-15 emissions were on average 12.2% below base year levels during the period 2008-2012.

The 13 countries which have acceded to the EU after the signing of the Kyoto Protocol, with the exception of Cyprus and Malta, had set a clear objective regarding the limitation of GHG emissions in the first commitment period of the Protocol. Hungary and Poland have set as their objective the reduction by 6% of the GHG emissions in the period 2008-2012, and Croatia aims at a reduction of 5% compared to 1990 level. The other eight Member States objective is to reduce emissions by 8% compared to the reference year. Based on the current estimates is that all of the 11 Member States which have set targets under the Kyoto Protocol will meet or even exceed their objectives.

For 2020, the European Union has set itself the objective of unilaterally reducing by 20% the GHG emissions of the 28 Member States, compared to the year 1990. The EU has offered to raise this goal to 30 percent if other major economies of the world would agree to contribute a fair share to the effort to reduce global emissions. The Commission has published a communication in which it considered this possibility. At the same time, the commitment to reduce 20% is provided for within the "energy-climate change" package and is an important objective of the EU 2020 Strategy.

The EU also pledged to reduce its emissions by 20% in the second Kyoto period (2013-2020). This commitment differs in some respects compared to the unilateral commitment of EU 2020.

One of the most important mechanisms of reducing emissions in the European Union is represented by the ***Emissions Trading Scheme (EU-ETS).*** This is an important part of EU policy for combating climate change, and also a key element for effective reduction, in terms of cost, emissions of greenhouse gases coming from industry sector. EU-ETS, the first and most important GHG emissions trading system, covers more than 11,000 industrial centres in 31 countries.

Reducing emissions at the national level. Decision No. 406/2009/EC of the European Parliament and of the Council regarding the effort of Member States to reduce their GHG emissions to meet the Community’s reduction commitments up to 2020, sets the minimum level of commitment of the Member States in terms of GHG emissions as a result of Community engagement for the period 2013-2020.

Reducing emissions from transport. Transport is responsible for one fourth of the GHG emissions in the EU, being the second emission generator, after the energy sector. Road transport contributes with one fifth of the total emissions of carbon dioxide, the most prevalent greenhouse gas. While emissions from other sectors fall, those generated by the transport sector have increased by 36% since 1990. A series of policies are necessary to reduce these emissions, and those policies must be tailored to each type of transport.

Reducing emissions through forests and agriculture. The emissions and sequestration due to forestry and agriculture in the non-industrialized countries are not currently regulated by an international legal framework. The policies development on forests in non-industrialized countries are covered by a framework entitled REDD + (Reducing Emissions from Deforestation and Forest Degradation "plus" conservation, the sustainable management of forests and enhancement of forest carbon stocks), the Joint United Nations programme for reducing emissions from deforestation and forest degradation.

In most industrialized countries, greenhouse gases emissions are generated from energy production and other anthropogenic sources. In the EU, agriculture and forests contributes to the atmospheric carbon reduction by eliminating approximately 9% of the total emissions from other sectors of activity.

Fluorinated gases with greenhouse effect. The European Union has integrated the control of fluorinated gases in the framework of its policy of combating climate change. The legislation was passed in 2006, and in 2012 the Commission has submitted a proposal to improve this legislation in such a way that emissions of these gases to be reduced by two-thirds by 2030.

In December 2013, the representatives of the European Parliament and the Council had agreed on a slightly modified text, based on the Commission's proposal. The revision of the fluorinated gas legislation is currently the subject to formal approval of the Parliament and of the Council.

The protection of the ozone layer. The European Union has a strong involvement in the protection of the ozone layer and has implemented an extremely strict legislation in this regard. The EU has not only implemented the Montreal Protocol on protecting the ozone layer, but has often eliminated dangerous substances more rapidly than was necessary to do so.

Substances that deplete the ozone layer are among the constituents of large range of industrial and consumer products. These substances have been used mainly in refrigerators, air conditioners and fire extinguishers.

Financing activity to combat climate change. At the Conferences of Parties to the United Nations Convention on Climate Change in Copenhagen (2009) and Cancun (2010), the EU and other developed countries have decided to offer nearly 30 Bil. $ in the 2010-2012 period to the developing countries, in order to support immediate action. At the same time, EU has undertaken to mobilize 100 Bil. $ until 2020. The EU considers that both public funds and private ones are indispensable elements for the financing of programmes to tackle climate changes and should be secured by further efforts to mobilize alternative sources of funding and private contributors.

Targets for 2030 on energy and climate have been proposed on 22 January 2014 by the Commission, and have to be achieved by 2030, if the European Union wishes to respect its commitment to reduce GHG emissions by 80-95 percent by 2050. The targets send a powerful signal to the market, encouraging private investments in new electricity networks, or technologies with low carbon emissions.

The objectives are the following: a 40% reduction of GHG emissions (compared with 1990 levels); a share of 27% in consumption to come from renewable energy sources; and the role of energy efficiency to be an important one, without being given a specific goal.

Adaptation to climate change phenomena. The Commission has adopted the Adaptation Strategy of the European Union in April 2013. By complementing the activity of the Member States, the strategy supports actions to promote better coordination and exchange of information between Member States, and at the same time, by ensuring that the adaptation is included in all the major policies of the European Union.

2.4 National level policies

Romania has always given particular importance to preventing and combating climate change. As an EU Member State, Romania participates in the community efforts to limit climate change through the transposition of Community legislation into the national law. The Romanian Government has contributed to the entrance into force of the framework Convention of the United Nations on Climate Change, signed in Rio de Janeiro on 5 June 1992, through its ratification in 1994 by Law No. 24 of 6 May 1994. At the same time, our country was the first country that ratified the 1997 Kyoto Protocol of UNFCCC, by Law No. 3 of February 2, 2001.

Romania's National Strategy on Climate Change 2013-2020, was approved by the Government in July 24, 2013. The strategy analyses the reduction of GHG emissions, in order to achieve the national targets, and adaptation to the impact of climate change. Implementation of the proposed strategy is Government responsibility, under the coordination of the Ministry of the Environment and Climate Change.

In the developping of the National Action Plan on Climate Change will be included the elements related to the implementation of the three Rio Conventions.

The first part of the strategy, related to the reduction of greenhouse GHG and to increasing the capacity of absorption of atmospheric carbon dioxide, has been focused on the following sectors: energy; industrial processes; solvents and usage of other products; agriculture; land use, forestry, waste management. [4]

The second part of the strategy is related to the problem of adaptation to the impact of climate change. The strategy aims to create a framework of action to enable each sector to draw up its own action plan.

The National Action Plan on Climate Change is the central instrument of National Strategy and determines the method for reporting progress on implementation. The Plan indicates the obligations of each of the institutions involved and identifies the key actors for each task. It specifies time limits for the various actions and also identifies sources of funding for the proposed action. The National Action Plan for Romania's National Strategy on Climate Change for 2013-2020 has not been elaborated, yet.

The national system for assesment of GHG anthropogenic emissions from sources and sinks, regulated by the Kyoto Protocol (SNEEGHG), establishes all aspects of institutional and procedural nature related with the estimation of GHG anthropogenic emissions under the Kyoto Protocol, and also procedures for reporting, archiving and storing of the information contained in the GHG National Inventory.

SNEEGHG is designed and administered by the competent authority so as to ensure the transparency, consistency, comparability, completeness and accuracy of the inventory, as defined in the IPCC Guidelines for the preparation of national GHG inventories, revised in 2006.

The National Inventory of Greenhouse Gases Emissions (INEGES) is an instrument for calculating and reporting GHG emissions and the level of sequestration of the CO_2, under the UNFCCC and represents the support of the national system for the estimation of GHG emission levels and the levels of CO_2 removed by sinks.

The Inventory is prepared by the Climate Change Department of the National Agency for Environmental Protection and is sent annually to the UNFCCC Secretariat, to the European Commission and to the European Environment Agency. Each Inventory characterizes the base year period (1989) - year X-2, X being the year in which the reporting is taking place. [5]

The Guide on adaptation to climate change impacts. The objective of this "Guide" is related to the development of the capacity of our country to adapt to the actual and potential consequences of climate change, through the following elements: monitoring the effects caused by climate change, and of the related economic and social vulnerability; the inclusion of adaptation measures to the consequences of climate change in the development of the strategies and sectoral policies and their cross-sectoral harmonization; identification of adaptation measures for the sectors which are vulnerable to the phenomenon of climate change. [6]

3. Development directions of the sector of power generation

3.1. Directions of development at European Union level

By burning fossil fuels, the energy sector has a major contribution to the generation of greenhouse gases emissions - mainly carbon dioxide (CO_2).

Reduction of polluting emissions resulting from the fuels combustion represents an important mean of protecting the environment and of improving the health status of the population - major requirements under the sustainable development strategy of the society – being known the association of the greenhouse effect with climate change. In this context, the European Union puts great emphasis on the implementation of environmental protection energy policies.

Valorisation of energy from renewable energy sources. On March 27, 2013, the European Commission published the first progress report on the Renewable Energy, under the provisions of the Framework Directive on Renewable Energy in 2009. From the adoption of this directive and the introduction of the objectives related to renewable energy, most Member States have experienced a significant increase in this type of energy consumption. The statistics from 2011 indicate that the EU is on the right track (13%) in terms of the targets for 2020 related to the 20% share of energy from renewable sources.

In accordance with the requirements of the 2009 Directive on Renewable Energy, every two years the Commission shall publish a progress report. The report assesses the progress of Member States in the promotion and use of renewable energy, taking into account the targets for 2020. The report also describes the development of policies in relation to energy from renewable sources in each Member State and their compliance with the measures laid down in the directive and in the national plans on renewable energy.

Increasing energy efficiency. The new directive on energy efficiency came into force on December 4th 2012. Most of its provisions were to be implemented by Member States up to June 5th 2014. This directive establishes a common framework of action for the promotion of energy efficiency in the European Union, in order to ensure the fulfillment of the objective of the Union for 2020, namely 20% increase in energy efficiency.

The new measures include:

- Quantifiable definition of EU target on energy efficiency: "The EU consumption in 2020 will not be higher than 1483 Mtoe - primary energy or not higher than 1086 Mtoe – final energy".
- The obligation of each Member State to establish an objective relating energy efficiency, in the form that it prefers (e.g. primary/final savings, intensity, consumption) and the obligation to communicate this objective, together with its "translation"in terms of the absolute level of primary energy consumption and final energy consumption in 2020.
- Obligation of Member States to achieve a certain amount of energy savings during the 2014-2020 period, by using energy efficiency schemes and other measures to increase efficiency in households, industry, transport;
- The public sector should be an example through the thermic isolation of 3% of the buildings owned and occupied by central institutions, and at the same time, through the inclusion of energy efficiency criterias in public procurement law, and through the acquisition of buildings, products and services efficient from the energetic point of view.

Safe use of nuclear energy The Commission proposed in June 2013 the amendment of the Directive from 2009 on nuclear safety, by: a. introducing new safety objectives at EU level; b. establishment of an european system of peer evaluations of nuclear installations; c. establishment of a mechanism for the development of guidelines on nuclear safety; d. strengthening the role and independence of national legislators; e. increasing the transparency of the nuclear safety problems.

European Energy Programme for Recovery In order to remedy the effects of the financial and energy crisis which affected the European economy in 2008, specific measures had to be adopted. In this respect, the European Energy Programme for Recovery provides for the granting of financial assistance to the energy sector, in particular for the introduction of interconnection infrastructure, renewable energy production, carbon capture and promotion of energy efficiency.

The European Energy Programme for Recovery was introduced for the purpose of financing projects in three main areas of the energy sector:

- Gas and electricity infrastructures;
- Wind energy;
- Carbon capture and storage.

A financial package of 3980 million EURO is dedicated to those three programs and to the financial instrument, these being allocated as follows: a. projects regarding gas and electricity infrastructures - 2267 million EUR; b. wind energy projects - 565 million EUR; c. projects for capturing and storing carbon dioxide - 1000 million EUR; d. financial instrument - 146 million EUR.

Other components of the energy policy of the European Union

The Energy Roadmap 2050 In 2011, the European Union has assumed, by adopting Energy Roadmap 2050, to reduce emissions by 80-95 percent below 1990 levels, by 2050. In the roadmap, the Commission examines the challenges stemming from the "decarbonisation" objective of the European Union, under the conditions of ensuring the energy supply and competitiveness. The roadmap is the basis for the long-term development of an European framework together with all interested parties.

The European Energy Strategy 2020 The communication "Energy 2020 - A strategy for a competitive, sustainable and safe energy" requires the adoption of measures in areas where new challenges may arise. These areas are:

- Energy efficiency;
- Infrastructure;
- Energy technology;
- External dimension of the internal energy market.

A single market for gas and electricity On October 10th 2011, the EU has adopted strict new rules regarding the wholesale energy trading. The main objective is to prevent the use of inside information and other forms of market abuse, which distorts the prices of wholesale energy and represents the reason that businesses and consumers pay more for energy than would be necessary. The new legislation will come into force by the end of 2014. Energy trading will be regulated for the first time at EU level, in order to uncover abuses. The national authorities of the Member States may apply sanctions to help stop and prevent market manipulation.

Energy infrastructure The European Union aims to complete by 2020 the energy strategic networks and the storage systems. This objective reffers to the production, transport and storage of energy. Modern energy infrastructure is crucial for an integrated energy market and to meet the EU objectives on climate and energy. The energy network must be modernized and expanded throughout EU, to take over energy from renewable sources and to provide safe, reliable supply everywhere. It is also need for intelligent networks, to save energy and to better manage the distribution. The Commission has identified 12 priority areas for the corridors and networks for electricity, gas, oil and carbon dioxide, and promotes projects to implement them.

3.2 Development directions at the national level

The priority objectives for the development of the Romanian energy sector Economic and social development on the long term requires a balanced energy policy that would take into account the following objectives, established by the Romania's Energy Strategy for the period 2007-2020, updated for the period 2011-2020: [7]

- the economic stability and the security of supply under the conditions of uncertainty in the price of energy resources on the international market, due to the continuous increase in energy demand;
- environmental protection - through the introduction of new technologies for the production and consumption of energy with low environmental impact, and for reducing climate change;
- the proper functioning of the internal market of electricity and natural gas, guarantee for a transparent, non-discriminatory competition and integration in the regional and European market;
- development and production of new technologies for the production and the consumption of electricity and environmental protection; the energy sector will sustain economic development and the creation of new jobs.

The Romania’s Energy Department's intention is to complete the new ***Energy Strategy for the period 2014-2035***, at the end of 2014. The first set of principles which will form the basis of the new National Energy Strategy, are the following:

- Strategic for Romania is to keep a balanced energy mix, which is a good premise for ensuring the energy security of the country.
- There are real prospects for Romania to further reduce its energy dependence or even become energy independent by 2020, especially due to the deposits in the Black Sea, even though it will most likely continue to be dependent to some extent on oil imports.
- In the period 2014-2024, Romania should encourage a prudent development of renewable energies, especially biomass, given that investing in photovoltaic and wind have developed too quickly and in an unsustainable manner in recent years. In the next few years, installing new production capacity of electrical energy in photovoltaic and wind could cause significant problems in the functioning of the system. Identification of alternatives to classical fuels used in the transport sector is also considered aa a priority in the field of renewable sources.
- The development of nuclear energy is essential for the achievement of the European Community objectives, which are aimed at reducing greenhouse gases emissions.
- Coal could remain an important source for ensuring the energy security of Romania, even if its share in the energy mix will diminish, being affected by the increasing of the energy consumption.
- Romania has a great potential in terms of energy efficiency, a potential that needs to be harnessed effectively, including in the field of buildings.
- Energy market in Romania could be integrated around the years 2019-2020 in the EU market, in the condition in which the project of creating a common European energy policy will be accelerated.
- The implementation of corporate governance rules at State companies should be speeded up and, at the same time, should be complemented by an analysis of the possibilities to strengthen the Romanian energy industry in a manner which is economically viable and which takes account of the strategic orientations of the region over the medium and long term.
- Romania should encourage the investors in the energy field in keeping interest in the domestic energy industry, providing a stable and predictable framework.

From the analysis of legal provisions of the “energy-climate change” package and the funding of the support mechanisms at Community level, in conjunction with the development of the Romanian economy, which will be based on the energy produced from fossil fuels (lignite), for Romania is essential the construction of new installations of power generation with CCS technology, as a measure to achieve the targets of reducing GHG emissions.

Also, the development of energy sectors must lead to compliance with the percentage of air pollutants emissions reduction by 2020 and beyond, set for Romania, by adopting on may 4th 2012 the reviewed Gothenburg Protocol.

For Romania, the level of emissions reduction by 2020 (expressed in % of emission reduction for the 2005-2020 period) is: 77% for SO_2, 45% for NOx, and 28% for particulate matters (expressed as PM 2.5) and will constituate an emissions reduction commitment, through the ratification by Romania, as an EU Member State, of the reviewed Gothenburg Protocol.

4. Conclusion

Policies to combat and limit the climate change are among the most diverse, these being determined mainly by the framework Convention of United Nations on Climate Change, their implementation being in charge of Parties to the Convention. Romania, as an EU Member State, and Part of the UNFCCC harmonizes its policies to tackle climate change with those of the Union, putting emphasis on increasing the energy efficiency, promoting renewable energy sources and developing the technologies for carbon capture and storage.

Considering the negative impact of the energy sector on the environment, the directions of development for this sector should be geared in favour of reducing the phenomenon of climate change, through the involvement of all decision-makers and through compliance with the legislation in force.

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Theories On The Money Non-Neutral Nature And De-Monopolization

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Abstract: - At the beginning of the 90's there was a consensus as to the vital theoretical matters on monetary policy with the result that currently there are few diverging points regarding the fact that a modification in the money offer generates, on a short term, significant consequences on production, while, on a long term, it influences prices.
Consequently, the idea that money is neutral on a long term has been accepted, this position being adopted especially by Austrian monetary specialists.
Such conclusions were triggered by the divergent points on Phillips curve on the basis of several long debates between Keynesian supporters, monetarists and theoreticians of rational prevention.
As it is well known, Phillips curve is an inverse relationship between inflation and unemployment, whose stability on a long term determined the UK Keynesian economists to regard this curve as the equation missing from the Keynesian model, i.e. the one which links price production and occupation modifications.
The curve has also been adopted in the USA by Paul Samuelson and Robert Solow, where it seemed to be valid at the beginning of the '60s.

Key-Words: - money neutrality, Phillips curve, invariable currency, money de-monopolization, inter-banking clearing.

Introduction

Austrian economists consider that the market may promote monetary stability to a better extern in comparison with a central bank. In a free-banking system, adjusting monetary dis-balances is achieved automatically so that economy is not affected. Consequently, these economists do not agree with the idea of money neutrality, considering that modifications of money quantities which circulate in economy cannot affect the prices of all goods and services at the same time and to the same extent. What is modified is the level and structure of prices. This is a fair conclusion, if we think that modifications of relative prices determine the re-allocation of resources in an artificial manner because prices systematically direct productive efforts towards a direction in which they cannot be maintained. The bad allocation of resources determines modifications in production structure and, thus, business cycles are generated.

Finally, recession acts as a correcting force whereby the perverse effects of monetary growth and absorptions are eliminated, both of them being external to the system.

The concept of non-neutrality has different connotations even among Austrian economists, depending on the perspective adopted as to the neutral nature of money; thus, one can speak of two directions.

The former adopts the perspective of Frederich von Wisser and is represented by Fr. Hayek[1], Selgin[2], White[3], Dowd[4] etc.

The second direction originates in the concepts developed by Menger, Bohim-Bawerk and it is furthered by Rothbard[5], Selemo and Hoppe.

In the next lines we are going to analyze the theses adopted over this issue as they were developed by the two renowned economists.

LITERATURE REVIEW

The matter of money neutral nature and its impact on the monetary policy of the central bank has been central to the Austrian monetary specialists, whose concept was approached differently and it led to the creation of two directions.

1. The monetary theory of Fr. Hayek [1]

1.1. As to the non-neutral nature of money

Fr. Hayek, a great economist of the Austrian school, is considered as the continuator of Frederich von Wisser, because he preserves in his theories the Wisserian concern for the neutral nature of money. He appreciates that the depreciations and value increase in money value – if not determined by modifications in resources and productivity – do not live up to the expectations of entrepreneurs and generate dis-balance in economy. In other words, any modification in the money demand and offer, which does not rely on the evolution of goods and services demand and supply, leads to dis-balancing economy.

Hayek considers that prices offer an important piece of information to firms. The successful economic activity or the accomplishment of the anticipative actions that generated it largely depends on the correct prediction of prices. Prediction relies on current prices and the prediction of their future evolution. Future prices are, however, always uncertain because the majority of individuals do not know the circumstances that determine them.

A correct estimation of future prices cannot be accomplished unless prices follow a clear tendency at all levels. Such a tendency determines the wrongful allocation of resources and the system deviation from a long term state of balance. Consequently, in order to maintain a stable level for prices, the quantity of money that is necessary in economy is the one that may be put in circulation without generating the increase or decrease of aggregate prices.

1.2. Monetary policy impact on the central bank

An exchange value that does not alter due to the modification of the relationship between the money demand and supply, i.e. the so-called invariable currency, requires the permanent intervention of a regulatory authority to determine the monetary value. Still, is it possible for a monetary authority to have relevant information regarding the importance of factors which influence the future value of the monetary unit?

Hayek appreciates that a monetary authority cannot ensure a stable level of prices because it is impossible for it to anticipate the optimum quantity of money that is necessary for reaching this objective. The suggested solution is to create a free-banking system, which should ensure the money offer.

Hayek appreciates that the monetary policy is a major source of market instability and it is rather a cause and not a remedy for depression. According to Hayek, monetary policy is neither desirable and nor possible; thus, he suggests denationalizing money.

It is considered that it is less likely for authorities to act for the public interest even if they had a relevant piece of information and knew what should be done for achieving the political welfare. Once the authorities have the power to favor certain groups or population segments, the majority mechanism will force them to use this power for supporting an enough number of groups in order to obtain the majority share.

Moreover, the monopoly over the monetary issuance generates the irresistible temptation to benefit from "cheap money".

This practice is generally tolerated and it remains unpunished because its consequences are not understood.

Hayek considers that free competition within the monetary area may generate stability within the monetary system and may settle unsolved problems as long as state gets involved in this sector.

2. The monetary theory of Mises [6]

2.1. As to the non-neutrality of money

1. Mises, who belongs to the second tradition as regards the perspective over money neutrality, appreciates that prices expressed in money represent the unique instrument for economic calculations; he also appreciates that it is wrong to consider the exchange environment as a neutral factor. In his opinion, Wieser's and Hayek's approach is rooted in an error, i.e. the idea that things have an objective and inner value.

The selling and buying of goods are due to the fact that individuals do not appreciate the goods and services which they give up as much as they appreciate the goods and services that they buy or benefit from. Thus, the notion of measurement is not useful. An act of exchange is neither preceded nor accompanied by a process that could be coined as "value measurement". All market phenomena originate only in the subjective ordination of utilities.

The subjective relationship which individuals establish between money and different goods and services, expressed as the exchange rate between money and goods, is the only way in which goods can be compared quantitatively. These relationships are mental instruments of economic planning.

Money is not an objective hallmark and prices are not measured in money; prices are rather a money expression, they are in fact money. This is the reason why it is impossible to have neutral money or money with an established value.

Mises disagrees that the concept of money neutral nature is useful for monetary policy and he does not agree with the idea that money value variation burdens economic calculation, as he does not agree with the idea that money value variation negatively influence the resource allocation process.

2.2. The impact of the Central Bank monetary policy

According to Mises, the state must abstain from exercising any influence over the money value. He considers that the modern monetary ideal is a currency in which the increase or decrease of a metal quantity is independent from any premeditated human intervention. Thus, he denies the role of the central bank in devising monetary policy.

2.3. Suggestions for restructuring the monetary system according to the Austrian School

This school, which is mainly represented by the above mentioned economists, considers that the principle of a healthy monetary system is the one which 100% relies on gold reserves; this vision reminds us of the approaches developed by the renowned Romanian economist Anghel Rugină, according to whom after the 90's it was necessary to introduce a 100% silver-supported currency.

M. Rothbard[7] and other economists consider that the only institutional arrangement which is valid and capable of assuring a stable monetary system, is a free-banking one, with 100% gold reserves. A disciple of Ludwig von Mises, who continued the tradition of Carl Menger during the past third of the 19th century, M. Rothbard understood that the spontaneous nature of the market process is incompatible with the existence of several institutions that were set up through the deliberate government intervention, i.e. the central bank and the official currency.

Other economists suggested other monetary systems. Fr. Hayek[1] considers that once the state monopoly over the money offer is eliminated, the market will be dominated by the money which has a constant buying power and which is issued by private producers.

Apart from Hayek's scenario, other monetary institutional arrangements have also been imagined, whereby the money offer is formed on a competition market, while also ensuring a flexible monetary offer; within this trend, there have been identified three types of free-banking by Selgin[2] and White[3]:

(i) A private monetary and banking system is suggested with a unique and distinct currency that forms its basis, consisting of a precious metal or of a certain fixed stock of flat money. This system may issue monetary substitutes or convertible currency, i.e. a system of fractional reserves.

(ii) Hayek suggests creating a flat money system that competes on the market, each coin representing a distinct "mark".

(iii) A competition payment system is imagined, without any kind of money.

According to White, of these three free-banking types, the one that appeared within a fractional system of reserves was possible due to the non-intervention of the state.

In fact, the history of state intervention within the monetary area is a history of inflation, instability and fluctuations. To Romanians, this is the natural result of monopoly, centralization and discretionary policy. The fundamental question as regards monetary policy is whether the state played any role in producing of regulating the production of monetary assets. According to Rothbard[7], the only solution that may be adopted in case of state-generated inflation and instability is to separate the state from the money offer.

3. De-monopolization of money

3.1. Total de-regulation of the banking system

One of the principles applied to the financial market globalization and shared especially after the 80's by the American Milton Friedman[8] and also by Friedrich Hayek[9] is the principle of free-banking which concerns complete market liberalization, in general, and complete financial liberalization of the financial market, in particular. The application of such a thesis cannot be accomplished outside a total deregulation of the banking system and a non-intermediation of the capital market.

The deregulation of the banking monetary system, in the strict sense of the word, implies that the national monetary authorities give up: the strict regulations governing this domain, as well as the constraints and restrictions imposed to the functioning of the monetary and currency market, and also the free movement of capital. However, this deregulation means, according to several specialists, the de-monopolization of money, a principle which is supported with two arguments. The first category brings arguments for the de-monopolization of the right to issue currency. The second category brings arguments for the banks to enjoy the right to issue money, on the basis of their assets; this money should be convertible into currency, which may be a precious metal or a fixed stock of flat money, which is not necessarily supplied by the state.

As to this privately issued money which is issued by banks on the basis of their assets, one cannot refer to them as a de-monopolization, but rather as a deregulation of the banking system. Within such a context, one should have considered that a free-banking system is supposed to regulate the banking system in general, given the well-defined (central) currency. Naturally, in order to meet this requirement it is necessary to examine the implied and explicit arguments brought against free banking competition.

First of all, one has to distinguish between 100% free-banking and the free-banking which is based on factional reserves. One of the most important arguments brought against free-banking which is based on fractional reserves derives from accepting that in the previous century it generated financial chaos.

Recent research on this matter, made after the 90's by White[3] and Hulsmann[10], do not support such an argument.

The conclusion of these studies is that, in fact, inter-banking clearing is capable of prevent the over-issuance of money (notes and deposits) both by private banks and by the whole system.

The supporters of the free-banking system that is based on fractional reserves argue that any bank - when trying to acquire more liabilities - must impose higher interest rates for deposits, and, thus, they reduce their profit. This expansion reaches a level at which the marginal income resulted from assets is equal to the marginal cost of the drawn liabilities. However, nobody knows where to locate this level. This is the reason why no banker knows what volume of liabilities is profitable and what volume might lead him towards bankruptcy. Hulsmann shows that there is a single way to find out this answer, i.e. by trying and making an error.

Bankers are aware of the fact that in a banking system that is based on fractional reserves bankruptcy may lead to another bankruptcy, like in a chain. They know that the banking community always tries to save a bank that is in a difficult situation. In this context, their main concern is to extend faster than the others so that they may obtain a higher market share.

According to J.H. De Soto[11], in a free-banking system each banker tries to internalize all profits that are derived from the extension of one's own credit and to externalize the costs incurred by the entire system. The system is inherently instable because when the clients of a sufficiently large bank no longer trust the bank's payment capacity, this bank may go bankrupt. In order to avoid individual bankruptcy – a threat which endangers the entire system – banks try to reunite their reserves. The newly set up institution may be a clearing private house or a central bank.

No matter the form that the new institution has, it allows banks to create inflation and, however, the appreciation of reserves cannot avoid the risk that the system is exposed to. The last instance creditor position, which a bank enjoys, is due to the banking sector pressure. Some economists, like Rothbard[5], consider that the central bank was not created for eliminating the inflationist tendencies of banks which function in a free-banking system, but to allow banks to create inflation.

These economists consider that the fractional system, as the central bank, is not the result of the natural evolution of the banking system. Their existence is due to a series of "historical accidents" and to the state intervention that allowed bankers to get involved in banking operations based on financial reserves.

Austrian economists, like M. Rothbard, who support a banking system that is 100% backed by gold, appreciate that such a system is not threatened with instability and does not require the intervention of any last instance creditor. This system, however, lacks the flexibility of the monetary offer. The points of view expressed in relation to such a banking system are based on two arguments:

(i) if the money demand is supposed to be stable, the needs of a new emerging company tend to generate deflationist tendencies which trigger economic recession. This is the reason why monetary authorities should supply the money quantity that is necessary for an emerging economy.

(ii) if the money demand is stable, monetary authorities must intervene to harmonize the monetary offer with the modifications of the demand, so that price stability could be maintained.

The last argument invokes the need to preserve state monopoly over monetary issuance since a free-banking system is considered to be instable. However, the theory of public options warns that there is no role which could be justified for the state even in the situation in which one can speak of a market failure.

The role of the state can be accepted after an analysis and demonstration of the manner in which the government is going to act in order to accomplish its role. Such an analysis must be made taking as a starting point the hypothesis according to which "the government is not a well-meant despot and that it usually tends to abuse its monopoly power". Some economists support Mises' conception as to the neutral nature of money and consider that it is not necessary for the money demand modifications to be adjusted by a monetary authority or by a free-banking system based on fractional reserves.

3.2. De-monopolization of currency issuance

Some economists appreciate that the de-monopolization of the currency issuance is rejected because of a set of prejudices which exist in relation to the role played by the state in issuing money; they identify four arguments in favor of having the money issued by a public authority, i.e.: the legal means of payment; the argument of the public good; the argument of money seen as a naturally formed monopoly; the argument of the money cost.

When referring to this argument, Fr. Hayek[9] regards it as a thinking cliché, which illustrates the naïve conviction that the government is necessary for issuing and defending money. This conviction continues the mediaeval idea that the state grants value to money, a value which money lacks; thus, it is necessary for a government to declare what should be considered as "money", as if the state had created money, which otherwise would not exist. In fact, money is not invented by state, but it is the result of the spontaneous social and economic evolution of society. The government has not done anything else by confiscate the money and manipulate it in order to achieve its own goals although initially the declared purpose of confiscation was the standardization of the existing currency and the certification of their quality.

3.2.1 The argument of the public good

This argument is often used against the idea of money issuance de-monopolization. Money, however, is not a public good and it does not fulfill the non-rivalry condition, as it does not fulfill the non-exclusion condition.

According to L. White[3], the argument according to which the public good is used for producing money by the government is reduced to the following statement: the government may produce money with certain characteristics which private forms may not produce. However, there is no proof to support the fact that the market failed in producing money. Moreover, public authorities are likely to produce money whose quality is less in comparison with private producers.

This argument also evokes the externalities generated by money. In other words, money has an important effect over other parties than the ones which are directly involved and a stable moderate monetary framework is an essential condition for the efficient functioning of market-based economy. That is why the assurance of such a framework is an essential function of the state. After decades in which the public authorities intervened in the monetary domain, it has been noticed that the state intervention worsened the situation because the failure of the monetary authorities to adopt a non-inflationist monetary policy makes it for the intermediate private factors to be instable, as well.

Similarly, money uniformity is supposed to be a positive externalities, which diminishes informational costs which the public must support when it uses more types of money. This argument is synonym with the statement that too many possibilities to choose make life more difficult. In consequence, the individuals' possibilities to choose must be suppressed so that the state may make the choice instead.

If we consider that this statement is correct, we accept that competition is eliminated; competition is the only process which people may use to discover what products and services and how many types of them serve the consumer in the best way.

3.2.2. The argument of the monopoly that is formed in a natural way

With this argument, according to R. Vanbel[12], the competition existing between several currencies generate a single type of money because money is a monopoly which is naturally formed. Under these conditions, the central bank does not need a legal monopoly. However, we do not know whether money is a monopoly which is formed in a natural way and the only way to check this is monetary competition. Legal monopoly over money blocks the possibility to discover the answer to this question.

The argument that money is a monopoly that is naturally formed is also supported by M. Friedman[8], as a reason for rejecting the idea that the market should be allowed to benefit from free monetary and banking arrangements.

Fr. Hayek[9], however, supported the suggestion that money should be de-monopolized by allowing competition with private issuers. On the other hand, a series of other economists are skeptical as to the private issuers' capacity to compete with success given the circumstance in which the starting point is a strongly stable (central) governmental currency. For example, M. Friedman considers that the only plausible alternative to the flat money issued by monetary authorities is a merchandise currency, with private producers that produce money on the basis of deposits, i.e. money convertible into that merchandise. But, this result is quite unlikely as long as a major collapse of national currencies, such as hyperinflation, does not occur.

M. Rothbard[7] himself is skeptical as to the de-monopolization which Hayek proposed. His objections are similar to the ones of M. Friedman. Money is not wished for itself but for the fact that it already functions as money so that everyone must be sure that money will be accepted by anyone as an exchange means. Individuals immediately accept notes on which it stands written "Dollar" or "Euro" and this happens not due to their aesthetical value, but to the fact that individuals are sure to sell these notes in exchange of the goods and services which they wish.

Rothbard appreciates that the only plausible system is the monetary system based on gold.

3.2.3. The argument of money cost

This argument takes into considerations the fact that flat money supplied by monetary authorities brings social benefits because it may reduce the cost of producing money. Such cost cuts may be accomplished through market processes because, in the absence of convertibility, private flat money would not be accepted on the market.

Other economists consider that flat money is not a natural evolution of the monetary system. The adoption thereof was imposed by the state and there is no proof to support that this is the best alternative. The idea that flat money represents a social economy is generally accepted because paper is cheaper than precious metal. This appreciation ignores that the individuals may prefer a currency-merchandise instead of flat money so that these individuals would agree with its cost. Furthermore, it is unlikely for citizens to benefit from these cost cuts because it is hard to believe that authorities transfer to them through a less reduced tax the cost cuts resulted from flat money.

CONCLUSIONS

From the above presented information, it results that the economists of the Austrian School appreciate that there is no justification as regards the state monopoly over money; these economists have also brought arguments against any state-intervention in the monetary system. According to them, a healthy monetary system needs to undergo fundamental institutional modifications at structural level so that the state could assure that money is no longer under the state influence and so that state authorities should no longer interfere with monetary problems.

The Austrian School theory is not upheld by the Anglo-American School (Great Britain, USA). For example, when referring to money cost, the great American monetarist, holder of the Nobel Prize, M. Friedman[8], has rejected the idea of private money. However, he recognizes that flat money have triggered the appearance of the types of costs, of which the main one has reduced the predictability of the price level on a long-term. The cost takes the form of the resources invested on the financial markets in order to offer institutions, firms and public bodies supplementary facilities for ensuring themselves against risk.

The development of globalization, with its deregulation and non-intermediation, has led to the appearance of a large number of theories, such as the ones adopted in the monetary area. However, due to the present financial crisis it has become certain that deregulation does stable the market; on the contrary, it generates a stronger deregulation and a better institutionalization for the monetary-banking sector.

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Consequences Of The Demographic Crisis

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Abstract: - Major dysfunctionalities can arise from the demographic decline, both on a social level and from the perspective of the economic-financial evolution of the world's states. The obvious aging of the industrialized states' population overlapping the import of cheap workforce in the developing countries can start mutations whose consequences are somewhat predictable but discouraging. An accelerated urbanization of the states is foreseen, as well as the decrease of birthrates, negative external migration, increase of mortality and its stagnation in a larger value than that of the birthrate, and not least the population's aging will hinder a part of the developing countries to sustain a high rhythm of long-term economical increase. The social-economic consequences will be reflected in the labor market, the householders' amount of income as well as in the education's level. All of these aspects call for a rethinking of the public politics, especially of the social insurance's system and of the education, a reorientation of the economy based on the increase of specializing in production and productivity, as well as a financial stability unburdened by the politics' interference in the business environment.

Key-Words: - demographic decline, population aging, migration, urbanization, public politics, economic growth.

1. Introduction

Demography studies the dynamics of human population. It is the science referring to the size, structure and territory repartition of the population as well as the method in which this population evolves in time for the births, deceases, migrations and aging. Societies' basics can be analyzed from a demographical standpoint or we can refer only to groups defined after certain criteria: the level of culture and civilization, nationality, standard of living, religion etc.

In 1878 within the second International Congress of hygiene, Emile Levasseur proposes the term of "demography" to designate a distinctive science, a term that replaced the already acknowledged theories regarding social statistics, social physics or theories of the population. It was only after four years after this statement that the term "demography" was officially introduced during the international Congress of hygiene and demography by describing the new science of population.

While demography emerged at the same time with statistics in the 19th century, it separated from said to become an independent science with a distinctive domain of research and analysis. Demography is now a border discipline: by its research processes, it belongs to mathematics, however through the analysis of the investigations' results it belongs to the field of social-economic and political sciences. At present, on an European and global level, demography records the most rapid progresses within the field of social sciences.

In the demographic study, quantitative and qualitative numerical data are used, which are gathered through censuses, questionnaires or through the mean of governmental institutions which offer statistical data regarding the population's changes (births, deaths, marriages, etc.). The demographic data can also result from media surveys carried out with a commercial purpose and based on methods of indirect estimation. The first modern census is considered to be the performance one that took place in 1790 in the United States.

Renowned authors have contributed with their theories and analyses to the demographic science: John Graunt, who is considered to be the first statistician and demographer, Thomas Robert Malthus, whose theory says that the population is growing in a geometrical progression, while the sustenance means are growing in an arithmetical progression – as a consequence of this relation between the population and the economic state, Malthus considers poverty, diseases, epidemics and wars to be positive factors for humanity, given the fact that they insure the equilibrium between the population's number and the quantity of sustenance, Achille Guillard, who defined demography as "the mathematical knowledge of the populations, their general moves and physical, civil, intellectual and moral states".

Demographic studies focus not only on the demographic evolution of a certain area, country or even an entire terrestrial civilization, but they also serve an economic and political environment purpose, as the reports between the population and human groups and the production, repartition and consumption of natural resources and treasures can be tracked.

Demographical analyses are also necessary from the social and economic politics point of view, for the knowledge of the tax payer population or from the perspective of the economic capacity and military potential of a country. The public politics of a government, including those regarding medical assistance, insurance system and pensions, increase their consideration for the demographical analyses, evolutions and prognoses.

The demographical changes from the last years have multiple consequences under an economic, social, political and durable development aspect. This study is aimed at emphasizing a part of these consequences and their implications on the governmental politics and strategies.

2. Theoretical background

In 1999, UNO announced the birth of the 6th billion person on this planet (Adnan Nevic, born in Sarajevo). After only 12 years, on October the 31st 2011, the planet's population reached 7 billion inhabitants. In only 12 years the globe's population increased with 16,66%. If we take in account the fact that the evaluations of the UNO statistics Committee's secretariat show that throughout approximately 70 years, from 1930 until 2000, the globe's population had tripled by gradually rising from 2 billion to 2,518 billion in the year 1950, followed by 3,024 billion in 1960 and at the end of the year 2000 exceeding 6 billion inhabitants . The population's projection made by UNO's demographic division in 1958 proved to be a realistic one for the year 2000, being placed between the estimation limits of 4,88 and 6,9 billion inhabitants.

Furthermore, according to statistics, the globe's population will increase towards reaching nine billion around the year 2050 even in the situation in which the birth rate will follow the descending course foreseen by the UNO's specialists. They estimate a 50% decrease of the global population's growth rate, in relation to the one recorded between 1959 and 1999.

This growth is not equally distributed (figure 2) since it requires totally different approaches regarding the public politics aimed at all the aspects of economic and social life influenced by these demographic evolutions.

The global economy has been based until now on a growing population and this trend will continue in the developing states and only in a small matter in the industrialized states. Out of the strongly industrialized countries, it is only for the United States of America (312 million inhabitants in the 2010 census) that the specialists have a significant positive prognosis for the year 2050. On the other hand, the risks of overpopulation are real and much more serious than those of under-population.

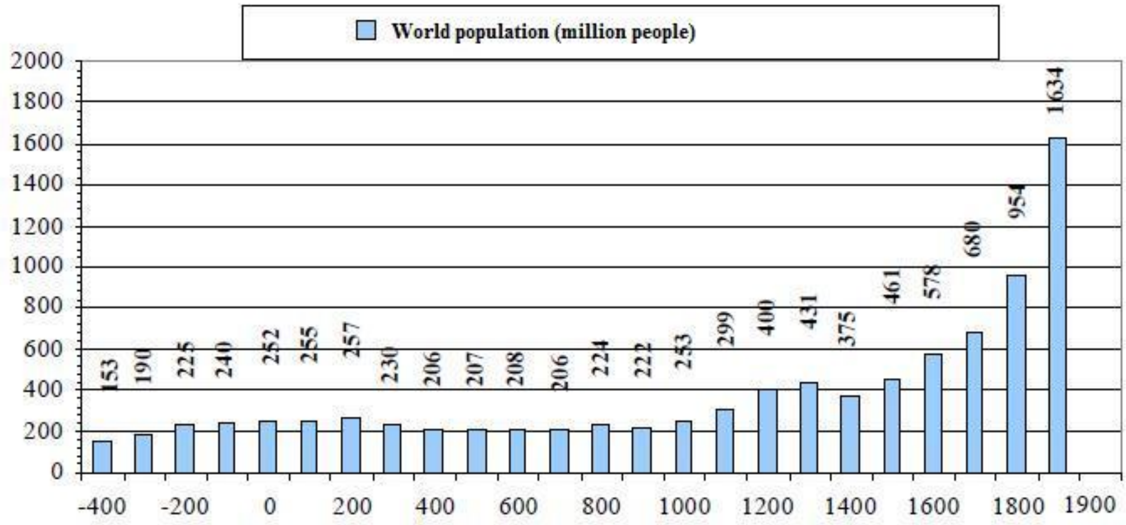

Fig. 1. The population's evolution on a global level until the beginning of the XXth century

Source: Gheorghe Sãvoiu, The number of population, a statistical and economic synthesis of the alternative evolution towards demographic explosion or implosion (2006) apud Vladimir Trebici (1991), Earth's population.

The specialists of "Vladimir Trebici" Demographic Research Center contend that the decrease of birthrates, negative external migration, increase of general mortality and its stagnation on a larger value than that of the birthrate are the main causes that lead to demographic aging. These tendencies are more accentuated in Europe especially.

- World population -

Year	Total world population	in which Africa	North America	South America	Asia	Europa	Oceania and Australia
2010	6 843	1 007	346	599	4 130	726	35
2015	7 219	1 115	361	634	4 351	721	37
2020	7 578	1 228	375	667	4 554	715	39
2025	7 905	1 344	388	697	4 728	707	41
2030	8 199	1 463	401	722	4 872	698	43
2035	8 463	1 584	411	744	4 992	688	44
2040	8 701	1 705	421	761	5 092	677	45
2045	8 907	1 823	429	774	5 168	666	47
2050	9 076	1 937	438	783	5 217	653	48

Fig. 2. The population's medium protection on continents for the 2010-2050 period

Source: World Urbanization Prospects: The 2005 Revision, Population Division of the Departament of Economic and Social Affairs of the United Nations Secretariat.
Image – from left to right: Year, Total of world population, Millions of inhabitants out of which Africa, North America, South America, Asia, Europe, Oceania and Australia

The demographic evolution's main consequences are:

A. On a social plan:

1. The birthrate's increase in certain geographical zones and its decrease in other areas;
2. The birthrate's decrease in the strongly industrialized countries;

3. Infantile mortality;
4. Emigration and immigration;
5. The changes of consumption tendencies;
6. The population's aging;
7. The extending age of retirement;
8. The rethinking of social politics.

B. On an economic plan:

1. Substantial changes of production in certain branches and under-branches of activity;
2. Negative evolutions and tendencies of labor productivity in certain domains;
3. The need to adapt to consumption needs;
4. Changes in the technology of exploiting resources;
5. Differences related to the way of satisfying necessities.

C. On a political plan:

1. The changes of industrial power poles;
2. Conquering new areas of influence.

A. Outcomes of demographic evolution on a social plan

The demographic decline and emigration

When confronted with a scarring demographic decline during the second half of the XX century, many strongly industrialized states in Western Europe tried to substitute the labor force deficit by importing cheap workforce from poorly industrialized countries, especially from the Middle East. Consequently, large ethnical minorities were constituted and were unable of becoming socially and culturally integrated, a problem which still exists today, as it is shown by the tensions existing in the French society, for example. Although it is not a viable long-term solution, soon Romania will become an attraction point for immigrants from poorer countries that will try to occupy the niches left open in the labor market by the Romanian people that left. This is what happened in countries such as Italy and Portugal, which constituted for a long time sources of emigration and which have now become points of attraction for the Romanians on the lookout of winning opportunities. For the time being, the number of immigrants in Romania remains reduced (10 000 people in 2008, 5% more that in the previous year). The total number of labor permits released to foreigners was of 76,700 in 2008, with 30% more than in 2007. Out of these, one third represents citizens of countries part of the EU, 24 percent being from Italy and 18% from Germany, however the main origin country of immigrants in Romania remains the Republic of Moldova.

Romanian emigrants mainly go to Italy, Spain and France, perhaps because of the similar and easy to learn languages. Romania is becoming more deserted and mediocre, thus reaching the point of losing its elites, which leave to continue their studies in greater universities such as Harvard or Cambridge. Romanians' migration is a phenomenon which no government can keep under control because of the lack of competitiveness. Hence, the labor force's migrations have contiuously been one of the main preoccupations of the Romanian government but without any efficient measures taken in order to combat this problem. Simultaneously, the migrations have a negative impact on the business environment, to this extent losing money along with the loss of people. Romania's population, estimated in 2002 at 21,680,968 inhabitants, will decrease down to 19.433.700 in 2022, and eventually will reach 18.136.724 in 2032. Romania's population has already reduced with more than 2,6 million since 2001, presently being represented by 19 million inhabitants, as shown in the latest census.

Officials have placed this accelerated decrease of population next to the reason that many have left the country in order to find a job in European countries such as Spain, Italy and France. The number of Romanian emigrants in the year 2009 (at the beginning of the economic crisis) was of 2769 million, which represented 13,1% of the total population. The money sums send in the country, in 2009, by the workers hired outside the country's borders, represented 4,4% of the GDP. When it comes to the deliveries during 2008 and 2009, Romania was surpassed only by Ukraine. The sums sent home by the Ukrainians throughout the two-year period exceeded 5 billion dollars a year. According to the data published by the World Bank, over 6,5 million Ukrainians live in foreign countries.

We are currently facing two problems. First: Romanians are migrating from poor areas in the country to the big cities. Second: Romanians are leaving the country to find work places in other states of the European Union. Both migration trends provoke an enormous demographic erosion in the rural areas because those who leave are young, educated and professionally prepared. Those who remain in the country are either old, or without any training or talent. These cannot determine the Romanian economy's success. Referring to those who do return, however, in the country, they return from Spain and Italy, where the economy in recession, especially in constructions, is causing people to lose their jobs. As soon as the conditions will change, we will assist to their new departure from this country. Nonetheless, we must consider that most Romanians have accommodated in the countries they work in, their families are already there and returning in the country is not a solution for them.

For example, at the beginning of the year 2010, 439 people, young and old (48% of which were older), came back to 1000 adults, as opposed to 509 young and old people, as it was recorded in 1992 when the older population represented only 33 percent. The researchers from the "Vladimir Trebici" Demographic Research Center admit that the 65 years old population share…..(Cercetătorii de la Centrul de Cercetări Demografice "Vladimir Trebici" susţin că ponderea populaţiei de 65 de ani şi peste va creşte numeric până în anul 2015) a mancat cuvinte..And the results of the population's projection confirm the continuation of the demographic aging process in the following decades, through the numerical and proportional decrease of the young people under 15 years old and the increase of the mature population.

The result of an analysis made by the European Committee, Romania's population has reduced with over one million people from 1992 and the prognoses indicate a decrease of approximately 2 million until 2020, especially for the young people with ages between 0 and 24, as shown by the experts from the Romanian administration. The birthrate has reduced, the number of young people with ages between 0 and 14 has dropped from 22,7 percent in 1992 to 15,9% in 2005, and that of old people over 65 years old has risen from 11 percent to 14,7 percent in the same time interval. The Romanian administration experts admit that the decreasing tendency of birthrates and the population's aging process will continue. The total number of live-births has drastically and continuously dropped from 1987 to 1995, when it stabilized for a while but restarted a new decrease from the year 2000 and lasted until 2002. According to studies made by the "Vladimir Trebici" Demographic Research Center, the number of live-births was with 40 percentages lower than in 1985. Starting with 1992, the deceases number constantly surpassed the live-births, thus contributing to the population's numeric decline. As far as the demographic aging is concerned, the specialists sustain that in less than two decades, every five Romanian inhabitant will enter the "elder" category.

The demographic aging

The demographic aging is a phenomenon that has been affecting modern states for several decades. The modernization has produced marking changes in the family structure, with significant demographic implications. As a result of the increasingly higher level of participation of women on the labor market and of the usage on a large scale of contraceptive methods, the number of births has significantly dropped and the family model that included a family with many children and fertility close to the natural one, has been replaced with the model that includes one or two children. On the other hand, the technological development has lead to new medical treatments accessible to the entire population. This matter, combined with the significant life quality improvement, has lead to the increase of the average life expectancy. In other words, in the industrialized states, people have begun to live longer than 50 years ago, but fewer and fewer children are being born, paradoxically, within the wealthy families.

The aging phenomenon is especially present in Europe and Japan. It is estimated that Europe has already reached a critical state: after one century of natural demographic growth, the perspective for this century is, on the contrary, a natural decline and an excessive aging of the population. A large part of the eastern European countries are already experiencing the demographic decline and numerous western countries will do so too in the near future. According to the UNO's demographic projection, the diminution of the population's effective will reach southern Europe in a couple of years, followed by Western Europe after 2010 and northern Europe after 2030 . The decline will be very scarring in Federal Russia, Eastern and middle Europe and more moderate in western and Northern Europe . Some countries will be in advance or late towards one of the demographic processes. For instance, Western and Eastern Germany have already known a population decline in the mid ‘80s, as opposed to Ireland which, thanks to its high fertility, will experience the continuous growth of its population in the first half of this century as well. Despite the intensity and rhythm differences that will persist between various countries, all European societies have or will have to mainly face the same tendencies of demographic decline and aging. As far as longevity is concerned, everyone aspires to live a long life and in good health, but society has to provide a favorable environment for the old people, by continuing to ensure an intergenerational equity in all the social life’s domains . The population’s tendency to age has a profound impact on all generations and on the highest parts of the economical and social domains: labor force, social protection, education, culture and politics.

Out of all the demographic evolutions, the increased 80+ age segment is also the most intense and most rapid one. Regarding this tendency, one might say that the various regions of Europe are not affected in the same way. The asymmetrical demographic impact represents by itself a challenge since it implies the politics’ need to adapt to the regional realities. In some countries, such as Italy for instance, the overrepresentation of very old people is the result of the accumulation of the effects of high fertility between the two wars and the massive decrease of birthrates in the ‘80s. Given the life expectancy increase as well, we will assist in most part of the countries to a strong increase of the age 80+ group after 2025. It is also expected that the very elderly people (80+) will be part of the group that will experience the fastest growth. In the first half of the XXI century their number will practically triple, thus reaching 65 million, as opposed to the present 22 million. The highest increase rate is foreseen for the period between the years 2000 and 2015. According to UNO’s medium projection version, in 2050 the very old people will represent 7% of Eastern Europe, 10% in Northern Europe and 12% in the south and west.

The implications are major for the society’s functioning method in its ensemble. A first consequence resides in the fact that the dependent population, mainly composed of retired people and of children, numerically surpasses the active population and can lead in the future to society’s incapacity to insure incomes for the inactive. To this extent, the first ones aiming towards a potentially collapse are the pension systems and the medical assistance, both large resource consumers and dependent on the active population’s incomes. The population’s aging process has been for several decades in the political agenda of all powerfully industrialized states, and the solutions adopted vary from keeping those that reach their retirement age as long as possible in activity, to stimulating fertility through the work program’s flexibility and offering public children-care facilities.

Romania: demographic aging or demographic decline?

The demographic aging phenomenon is more accentuated in the rural environment than in urban areas, approximately 19 percent of the rural population surpassing the age of 65. The aging process will have negative effects in time. On January the 1st, Romania’s population was of 21658,5 thousand inhabitants, out of which 48,8 percent were men. Romania’s actual demographic situation is not an isolated case in the European context. The entire Europe has known evolutions similar to the one in Romania, however the decrease of fertility is more accentuated in the ex socialist countries. At the end of the previous year, it was estimated that the global population surpassed 7 billion inhabitants and specialist considered that in the year 2050 the level of 9 billion inhabitants will be exceeded. According the specialists’ expectancies, in the XXI century the world population will continue to grow but in a slow rhythm, after which, in the last decades, it has experienced an exponential increase.

Recent studies confirm the scarring demographic decrease that our country is experiencing. Relieving the restrictions imposed by the communist regime regarding the family planning and contraception, as well the economical decrease through which the Romanian society has passed in the first years of transition, have led to the drastic decrease of birthrates. The fertility rate is part of the most reduced in Europe, even if from the beginning of the year 2003 a slight increase was felt, mainly in the urban areas. Demographic studies show that in Romania the number of children that are born is a lot under the one required for replacing generations. Unlike the strongly industrialized European countries, in Romania people are living less, the medium life expectancy being more reduced in comparison to states such as Sweden or Holland. Poverty, low access to medical services and lack of sanitary education represent only a part of the factors that explain this situation. Nevertheless, the number of children that are born does not insure the replacement of generations. Furthermore, it is expected that the economical and social development will raise the medium life expectancy. All these will aggravate the population's aging process. Beyond the population's "universal" aging process, Romania has been confronting in the last years with a powerful external migration. Although there are no official data referring to this phenomenon, the unofficial estimations mention almost one million Romanians that are working in Italy and another one in Spain. You can hear the Romanian language spoken everywhere in many European countries, which thus shows that the migration phenomenon for finding jobs in foreign countries is indeed a massive one. Those who leave are in general part of the active population, adult people with a qualification.

All these aggravate the country's demographic decline. The predictions made in this context by demographers are worrying. According to the United Nations Population Fund's estimations, Romania's population will reach 16 million inhabitants until 2050 if long term measures will not be taken. Practically, in 40 years the dependency rate will be of 1 to 9, meaning that one adult will have to support the vulnerable age groups (children and elders). This is the gloomiest scenario imagined; nevertheless it represents an alarm signal to which the required attention must be paid.

Romania's National Bank economists estimate that the demographic problems (the population decrease and aging process and the labor force migration) will hinder Romania from sustaining a high rhythm of long-term economic growth, the migration's demographic shock could be reversible but the birthrates' decrease, which began in 1992, cannot be compensated and will be reflected in the labor market starting with the year 2010. Moreover, the "demographic time bomb" concept is not a new one, as it is the main factor which determined the states to launch private pension systems in order to overcome the pressures which the population's decrease and aging will have on a global level on the public pension budgets.

Only seven countries could manage to reach economical growths above 5% for more than 20 years, among which are China, Ireland and Macau, but none of them had demographic problems. Romania cannot hope, because of the demographic problems, that it will reach such growth rhythms for a medium or long term. According to a study presented by Bianca PAUNA, representative of the Economic Research National Institute, the external migration represents in Romania's case 10% of the total population and almost 25% of the active population. As we previously emphasized, migration has as a main disadvantage the emergence of labor force deficit, which presently mostly affects the big cities in Romania. In accordance to the Eurostate data, the statistical division of the European Union, Romania will suffer until the year 2060 a dramatic loss of population – which will affect the public pension system and which will make private economy absolutely necessary. According to the same data published by Eurostate, Eastern Europe's population is aging more rapidly than the Western one. Consequently, the eastern migration will decrease and the ex communist countries will have to find in the next decade new solutions for maintaining the rhythm of development.

Eastern Europe also has the most decrease rates of participation in the labor force by young people, women and elderly.

If the actual migration and demographic trends will be maintained, and the economy will not offer stimulants to investors and autochthonous labor force in order to remain in the country, Romania will not have the possibility to recover the economic discrepancies that separate it from the civilized world. According to a study made by the Institute for Population and Demography in Berlin, the most unattractive regions in Europe, from an economic and standard of living point of view, are in the rural areas in Romania, Poland, Bulgaria, Italy and Greece. The qualificative expresses a complex of factors taken in consideration for the study's elaboration: birthrate, economic development, population income, level of education, living conditions, migration etc. In three decades, a decent life, if not a prosperous one, and functional economies will be present in countries such as Switzerland, Sweden, France, Great Britain, Austria and Germany. While countries like the Czech Republic, Slovakia, Slovenia and Hungary will be, in their turn, places with a certain degree of economic development. Even if they are facing the same problems, specific to their ex socialist camp, they have started the reforms early, are decisive towards their objectives and have allocated the resources necessary to reaching them. Dr Reiner Klingholz - one of the authors of the German study, considered that the low score obtained by Romania, which placed it among the countries with an uncertain economic and demographic future, was calculated based on the indicators that quantify economy in general, labor market, housekeepers incomes, level of education etc. Even if the Romanian economy also recorded growth rhythms superior to European developed economies, the statute of a country that recently entered the European Union is noticeable since high development differences exist towards the old member states, as well as towards other ex communist countries.

Depending on the human resources' dimension, four of the fifteen countries members of the European Union, such as Germany, France, Great Britain and Italy are large countries, two are part of the middle countries group (Spain and Holland) and the others are considered small countries.

Also, the diminishing active population also attracts the drastic decrease of labor productivity in economy. The specialists believe in the existence of methods through which the economical growth cannot be affected by this situation, such as the development of modern industry and services sector, simultaneous with the education's level improvement. Thus, the following question arises: how fast and especially how efficient can Romania invest in competitive education, service and industries, in order to insure decent living conditions for the aging population?

B. Romania's case regarding the demographic evolution's consequences on an economic plan

Eight or nine years ago, some authors considered that the demographic crisis manifestation and the labor force's migration towards countries of the European Union represented a positive process through which national product can be formed, money can be brought in the country, a new culture and civilization model can be implemented or a business can be set on the basis of the accumulated incomes. Also, from a macroeconomic point of view, the migration's effects were beneficial because the small investors started and coordinated business in the country, created working places without private or public investing support from the national economy. The incomes created by this sector joined the internal consume fund, funds destined for development and, on some measure, for economy's budgetary resources. Also, the money transfers, with powerful implication on a microeconomic level as well as macroeconomic, were considered another positive effect of migration . Regarding these transfers, Romania's National Bank's estimations reached 1.753,5 billion USA dollars in 2004 and 4.440,9 million USD in 2005(4), which represents 4,51% of Romania's GDP for the year 2005. The effects of the money transfer on a macroeconomic level are difficult enough to be measured because of the multiple interactions on the macroeconomic variables level. These transfers have visible effects on investments and economies. The most visible impact of these transfers is recorded on the home's expenditures, which is highly important on a macroeconomic level, being recorded in the internal aggregated demand, part of the GDP. The money transfers towards homes represent direct sources of income increase, which leads to the growth of consumption and implicitly to the temporary reduction of poverty. These sums have the capacity to reduce the social polarization through their redistribution effects.

After a while it was considered that that category of Romanian people existed that left the country to work, people disappointed by the lack of opportunities in this country, the poor living conditions and the low degree of civilization. The most often encountered economic motives are related to the low salaries as well as the lack of working places. Another complaint is related to the number and level of imposed taxes, which do nothing more than deepen the citizens' level of frustration and the business environment. The minimum economy wage, unemployment aid and social services do not compare to their level offered in other countries. The politicians that gained power in the last period have not managed at all to change the situation. Everybody considers that the educational system must be strongly improved so that the Romanian elite will not leave the country but in spite of this, nothing is happening. More and more young, well-educate people but members of separated families or with reduced incomes, choose from more and more younger ages to leave in foreign countries.

At the present we can notice the dramatic potential of the well qualified labor force that Romania has to generously offer to foreigners. The Romanian state spends approximately 10.000 Euros for every citizen before hiring him, for those that stay in school until the age of 18. Among others, the money is spent for education, transport and social services. In addition, the sum spent for those that finish university studies is almost doubled. This is why when a qualified worked leaves, a corresponding restitution of the investments made for his professional training is less likely.

Today, Romania's labor market is characterized by a rate of relatively low activity compared to the EU's medium, high rates of unemployment for the group ages of 15-19 and 20-24, a high percentage of early retirement from the formal labor market and a significant degree of occupation in the agricultural sector characterized by the lack of taxpaying. Also, in the occupied population's structure split into sectors, a few negative tendencies manifest :

- the increase of the population working in agriculture, associated with the emphasized demographic aging process and the feminization of this branch and the rural environment;
- the decrease of the population involved in industry and agriculture, with direct effects on the ensemble economic results, on the human factor quality, labor motivation, economic and social efficiency;
- the extremely slow evolution in proportion and rhythm, unequal on branches, of the population occupied with services;
- the exports decrease (as a result of the internal production decrease), the artificial support of the national currency.

This evolution was the result of the simultaneous action of numerous economic, demographic and social factors. Between these, the highest share is represented by the economic factors and, above everything, by the economic organism's restructuring, which led to an accentuated economic decline. In consequence, in Romania's labor market more types of unemployment exist (conjectural, frictional, as well as other types that, naturally, are present in a "settled" market economy), but the most predominant is the structural one. In this context we must not forget the influence of a demographic factor. The unemployment, as a result of the game between labor force supply and demand has risen, on one hand through the compressing of the first, and on the other hand through increasing the second one through: a) the massive redundancies of the occupied labor force (over 60% of the unemployed people number); b) the new presence on the labor market of some labor force contingencies – graduates of the secondary and superior school system and, in addition, of other categories of unoccupied population.

C. The demographic evolution's consequences on a political plan

On a global level, the demographic situation is in full evolution. This phenomenon is reaching all states of the world. If in order to reach 2 billion inhabitants, 130 years were required for the world's population (1880-1930), in order to surpass from 6 billion (1999) to 7 billion (2011), only 12 years were required. This evolution is different from one state to another, from one region to the next. In the last decades, the world's population has known an accelerated growth, especially in the developed states. In Europe a great demographic tendencies diversity is observed, which is characterized by a diminished population in Germany and Russia and, on the other hand, a rapid increase in France and Great Britain, mainly caused by migrations. To this extent, it is important for the demographic challenges to be transformed into opportunities of such matter that guarantee a durable economic growth and international security. The population's scheme of growth is very different in the developing countries or underdeveloped and developed countries. In the first case, demography is characterized by a strong proportion of young people that represent more than half of the population. The enormous proportion of young people in these underdeveloped regions, often instable, imposes a great social burden and serious problems of the governments' infrastructure that have no means of offering them education, social services, homes and lasting work possibilities. On the other hand, if the young ones do not find a working place in their country they tend to emigrate, heading for Europe or North America, where they hope to be able to work and be better paid than in their natal country.

Simultaneous with the numerical growth, the global population is aging. According to projections, until 2050, the number of people over 60 years old will triple on a global level, thus reaching 2 billion individuals. Europe, according to the same source, will have a larger number of elderly people, which will maintain for several decades. Indeed until 2050 more than one third of the European population should surpass the age of 60. This situation will impose major changes in politics and the attitude towards age. We are talking about the social protection and the medical assistance which these people over 60 years old regularly require more. The developed countries are facing the aging of their populations. The rate of births is a lot under the developed countries. UNO foresees that the number of 60 year old people and higher, in the developed regions of the world, will increase from 245 million, in 2005, to 406 million, in 2050, while the number of those younger than 60 will diminish from 971 million, in 2005, to 839 million in 2050 .

A special place among the demographic phenomena is occupied by the urbanization. According to the UNO reports, 60% of the world's inhabitants will be living in cities by 2030 (70% in 2050) . In 2008, the global urban population equaled the rural population level. It is foreseen that due to the demographic growth, the majority of the population will be in urban areas. The demographic projections presume that the number of townsmen will reach 4,9 billion near 2030 and the number could reach 9,2 billion in 2050. The cities will totally absorb this increase and will continue to attract people from the rural environment in search of a better and well paid working place. This demographic growth will be concentrated in the urban areas in less developed countries, especially in Asia, Africa, Latin America and Caribbean .

In parallel with the globally urbanization, we are assisting to the expansion of cities with more than 10 million inhabitants. In 2007, 19 such cities existed, number which should increase to 27 until 2025; 80% of these cities are situated in developing countries. These already huge cities, which will literally be taken by assault by a multitude of new residents during the next decades, will suffer various calamities such as poverty, road block and pollution, as well as critical transport services and questionable living conditions. As a result, the poor townsmen will often live in insanitary homes, without water, electricity or sewerage. Uncontrolled urbanization and growth of megalopolises will generate security problems. The large cities expansion will basically reach the shore regions situated at less than 100 km of coast.

At the present, 60% of the world's inhabitants live at less than 100 km off shore and 70% at 320 km from the sea. These regions are exposed to environment threats such as hurricanes and floods. Taking in consideration that the majority of large cities are in developing countries, they will lack infrastructures and sanitary homes. The development of these countries will put pressure on the municipal installations and state institutions. The competent governments that have sufficient resources will probably manage to insure a good management, but the townsmen from poorly developed states and fragile countries will probably suffer repercussions because of the absence of financial means and of adequate infrastructures. The global urbanization will continue. The big cities' deficiencies in underdeveloped countries will increase the risks of diseases, pandemy and humanitarian crises, thus emphasizing the more and more urbanized character.

3. Conclusions

The measures that the EU expects in order to support the defiance of the population's aging are circumscribed in mainly general frame, out of which components we mention:

- The population's aging requires a complex political approach, by also including the aspects related to economy, occupation, social problems. Societies must not only guarantee the supply of an adequate frame for elderly people, but also economic and social viability in an old world. The politics related to this domain must take in consideration the entire complexity of interactions between demography and society. The EU's responses to the aging population's challenges are part of the global strategy launched by the European council in Lisbon and confirmed afterwards by the councils in Nisa, Stockholm, Götteborg, Laecken;
- Adaptation politics are required as much as change politics. The reactive type of politics tend to adapt society's structures to the demographic evolution, the politics based on change aim at modifying the demographic factors in order to obtain the effectives wanted by the population and a composition of equilibrated ages. They do not exclude each other, instead they can be integrated in various combinations;
- States must act now in order to resolve problems because later on the solutions will complicate. The cost of corrective measures is higher;
- The politics and practices are based on what is called active aging (oldness), which involves the education and shaping throughout the entire life, the later and progressive withdrawal from activities, the practice of activities that preserve capacities and health. This also implies reducing dependency and just as well reducing the costs of withdrawing from activities and those of health care;
- Substantiating politics in regard to aging must be based on the course of the entire life and on society's ensemble. Adapting to the population's aging concerns people of all ages, thus increasing the politics' degree of adequacy through including measures that take in consideration the requirements of people from all age groups. All generations will have to contribute to finding solutions and means of adaptation. The objective must be "a society for all ages";
- Integrating the dimension of equality between men and women. Aging is a phenomenon characterized by important differences between men and women.

Taking in consideration the long-term demographical hypotheses, the increased fertility rate is essential for ameliorating the scenery which, in the actual given conditions, includes a rapid aging rhythm of the population. To this extent, Romania's government adopted the 396/2006 Law regarding the offer of financial support for constituting a family, which includes the offering of 200 Euros for every family with the condition that both partners are at their first marriage. Furthermore, with the purpose of increasing the birthrate, the no. 148/2005 OUG (the government's emergency ordinance) was modified so that families will receive support for raising their children, by introducing the option with which the monthly allowance of raising the children is 85% part of the monthly average of the professional incomes from the last 12 months (but 4000 lei maximum) or 600 lei and an additional monthly stimulant of 100 lei. Also, mothers beneficiate of maternity vacation for raising the brat for two years or, in the case of a child with disabilities, up to three years

The main objectives of the health system's reform are:

- insuring an adequate financing of the sanitary system so that the population's needs are fulfilled as much as possible;
- decreasing costs for hospital medical assistance by improving the management of the hospitals that function on the principle of financial autonomy;
- increasing the ambulatory medical assistance's capacity to resolve the population's health problems, inclusively by insuring family medical cabinets with computing technique, computational programs and communication services;
- creating and consolidating the national system of urgency medical assistance and qualified first-aid.

On behalf of insuring the financial resources, the following measures have been or will be adopted:

- multiplying resources in order to increase the tax payers number;
- regulating the performance of the private (additional) health insurance system in order to diversify the resource base and increase the competitiveness within the system;
- introducing and completing the concept of co-payment and minimal health services package.

The additional implication of the private sector in providing medical services is essential for reducing the pressure wielded on public resources and for improving the medical services' quality. An additional source for investments was insured by introducing in 2006 the vice tax, with the purpose of combating the excessive consumption of tobacco products and alcoholic drinks, improving the infrastructure of the health public system and by financing health programs.

Other economic measures for overcoming the demographical crisis can involve reorienting the economy towards unique services and products with global impact, increasing productivity, encouraging the development of industries that can create a high added value, increasing specialization in production.

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Correlative Notions Of The “Professional Judgment” And The “Professional Behavior”

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Abstract: - At a professional level, the conduit involves general rules that are subject to certain particularization that appears as a positioning of human postures of social nature into a microeconomic environment.
In the modeling process, the interdisciplinary of the domains is being taken into consideration along with the specificity of the organization in which the employee is working and also involves a multitude of internal and external factors that are generating, as a final result, a diversity of correlative notions regarding the professional judgment and the professional behavior.
This paper scope is to highlight the reciprocity incurred between the two notions and also the influences created by.

Key-Words: - professional judgment, professional behavior, temperament, organization, interdisciplinary, development.

1. Introduction

The professional judgment, as described by Professor Paul Gagnon, is „the invaluable mental power” [1].

“A good judgment is something that must be worked at all the time and with great skill and effort. It does not exist automatically; it must be created” [2].

Our vision over the professional judgment comprises both the traditional side of the judgment, with accent laid on the conclusive thinking of a demarche and the pro-economic side that highlights the multitude of progressive effects of the professional environment.

2. General acceptances of professional judgment

2.1 The deontological vision of the professional

Including a judgment intro an organizational environment draws after self a series of written and unwritten rules of the professional circuit.

In respect of the written rules, we state that there is an assembly of documents that guides the decisional mechanism, therefor the professional judgment. Among them, we name the various ethic codes, working procedures, standards, regulations, etc.

Professional judgment possesses a complex guidance mechanism formed both from the fixed side of the whole process – the documentation in place and the flexible side that is related to the cognitive abilities of the employee, more concisely his behavior.

Fig. 1 The professional judgment`s influences (created by authors)

3. Correlative notions of the professional judgment and the behavior

3.1. The issues of a bonding between the judgment and the

Behavior, according to Tilquin, represents the whole of the adaptive reactions, objective-observable, whereon an organism which has a nervous system is executing as a response to its stimulus from the environment, which, also are objective-observables [3].

A significant issue analyzed in this paper is situating as central interrogation the following questions:

1. Is the behavioral structure of the employee significantly affecting his professional judgment?
2. In what manner is the professional judgment defining the behavioral structure of the employee?

Fig. 2 The link between concepts (created by authors)

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		P	R	O	F	E	S	S	I	O	N	A	L			
	J						P	H	L	E	G	M	A	T	I	C
	U					N					U			E		
	D	O	C	U	M	E	N	T	S		I			A		
	G		R			U					N			M		
	M		E			R				T	E	M	P	E	R	
B	E	H	A	V	I	O	R							L		
	N		T		P	E	O	P	L	E		C		A		
	T		I			C			A			H		N		
			V			O			W		W	O		C		
			E			N					O	L		H		
				P	R	O	C	E	D	U	R	E	S	O		
						M					K	R		L		
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						C	O	D	E			C		C		
		D	E	C	I	S	I	O	N	S						

Analyzing the first question, we observe that at a hypothetical level, the hierarchical order of the mental structure is the order that situates the behavior in a primary position. This aspect means that the professional judgment is guided by a behavioral mechanism which sits at the base of all actions.

The second question is trying to settle the extent in which the professional judgment prevails when taken into consideration the professional environment, the behavior being completely directed by the assembly of directives, procedures and existing organizational documents.

3.2. Granting value to the exposed issues

3.2.1 Sustaining the interrogation that underlines the significant influence of behavior over the professional judgment

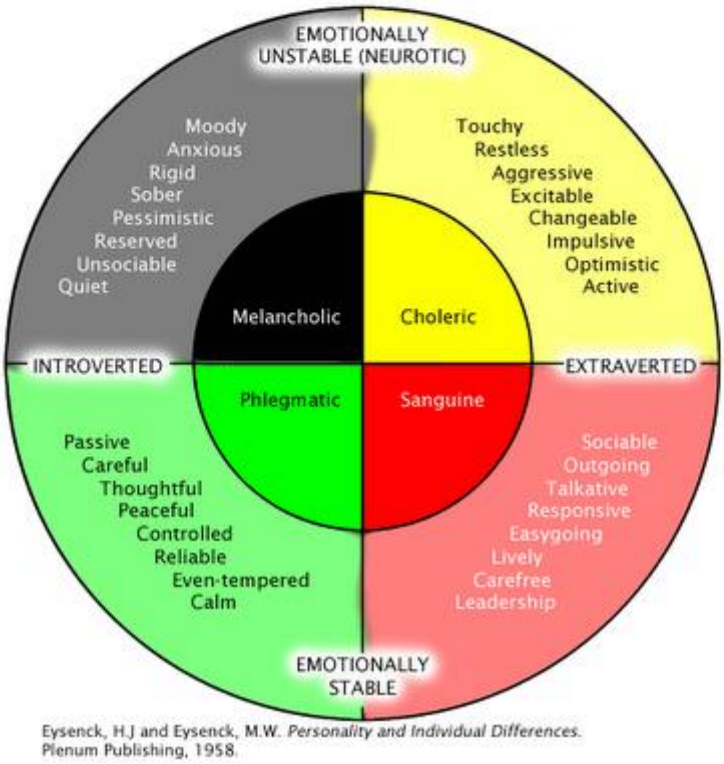
Transforming the first presented question into an affirmation we obtain that the behavioral structure of the employee is significantly influencing his professional judgment.

The pylons that can support us when granting this affirmation a positive value is aiming at the evolutionary order of the human characteristics. It is supposed, accordingly to this hypothesis, that the employee is first of all an entity that accumulated general knowledge and then, at a particular level, is restraining his domain of activity at the organizational environment.

In order to support these presentations, we bring the correlative presentation of some associations between behavior and professional judgment through addition of a dominant factor in the existential quality of the behavior – the temperament.

„Temperament is that aspect of our personalities that is genetically based, inborn, there from birth or even before. That does not mean that a temperament theory says we don't also have aspects of our personality that are learned" [4].

Fig. 3 Eysenck, H. J., and Eysenck, M. W., Personality and Individual Differences



Characterized by a choleric temperament that has as features toughness, aggressive character, intolerance towards colleagues and overflowing energy, the employee tends to filter his professional judgments through a subjective filter, driven by its own nature.

In order to sustain the first hypothesis, we point out that the syncope resulted from this type of manifestation leads to inconsistencies of the organizational set of objectives, the employee tending to impose its own decisions and working methods.

A sanguine temperament, with an exaggerated manner of exposing the reactions and a high level of disorganizations can lead to the creation of an image that can transmit the idea of non-involvement, not paying attention, thus a syncope in the good development of a company.

An employee with a melancholic temperament does not hold a discipline of his own feelings, he presents an accentuated sensibility in the relationships with other and tends to have strong reactions towards critics. The syncope emerged from this kind of behavior is showing the inability to adapt to a collective or worse, the tendency to me marginalized from a collective, facts that lead to a unbalance of cooperation that is wanted within a company.

The commodity, indifference, not reacting to challenges and evolutionary situations are features of a phlegmatic character. Evaluating these features, the employee with a phlegmatic character does not have a the motivation needed to evolve future activities for the company therefore the syncope appears at the time the difference between professional obligations and personal requests emerge.

3.2.2 Pro arguments in settling the fact that the professional judgment defines the behavioral structure of the employee

Once included in an organizational circuit, the employee has the compulsoriness to fit in the imposed collective rigors, on which base he was employed. He must aim in respecting the objectives accordingly to all directives and pre-established procedures.

The employee becomes a link in the chain of the company, his activity is influencing the other participants in the working process and therefore the professional judgment dictates his behavioral structure. This „must search new customers, identify their needs and launch new offers. Consequently, the strategies which will be adopted focus expansion on new markets and geographic expansion". [5]

The person in the employee posture must have a high capacity in adapting to the work market as there can be risky situations when „the identified factors, evaluated and ranked may change in the next period their force of action or even the market structure". [6]

Managers consider that is mandatory that analytical information must exist in order to monitor the prices on the market, how any of the employees contribute to the global profitability of the company and what are the costs in improving the competitiveness of the company. [7]

In order to eliminate the domino effect, the professional judgment of the employee has a recoding base and directs the behavior in favor of fulfilling all the job's requirements.

The professional judgment shapes the behavioral structures no matter the temperament, the classification being redundant in this context.

4. Conclusions

The two interrogations presented above confirm reciprocity, a both senses circuit of notions that marks both an analytical development of the human in the posture of an employee and an increase at a macroeconomic level through bonding the environments of character with the organizational environment, thereby creating a proper professional environment in reaching the evolutionary targets.

The employee, no matter the junction between the professional judgment and the behavioral highlighted temperament characteristics can shape all this elements for its own advantage, an advantage that can be harmonized with collective benefits.

This paper aimed at exposing the correlative notions between the professional judgment and the professional behavior through a creative and interdisciplinary approach.

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Eu Funded Projects: Management Tools For Preventing Fraud. A comparative analysis of Administrative measures in the Member States

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Abstract: - The purpose of our analysis is to contribute to fighting fraud detrimental to the European Union's financial interests by the dissemination of the knowledge in the field of administrative measures for preventing fraud and irregularities related to the EU Structural funds. In this study we present some theoretical issues as well as the results of a comparative analysis between member states which offer some answers to the question about how much fraud is committed in the EU Structural funds and who are the "champions" of fraud in the last years. Our analysis is structured on 4 parts: a) Romania and the European Funds b) Irregularities and fraud in the management of the EU projects; c) Management tools of Member States to prevent frauds in EU funds- a comparative analysis; d) Conclusions regarding Romanian administrative measures to better prevention of cases of suspected fraud.

Key-Words: - European Funds, irregularities, preventing fraud, Management tools, administrative measures, EU, Romania

Introduction

A variety of EU funds has long been available to improve the development of the EU. The EU funding means that the European Commission awards grants to implement a project in a specific field. The funds are transferred *directly* by the European Commission (calls for tender within FP7, Life Long Learning Programme, and s.o) and *indirectly* through national agencies of Member States (ex. European Regional Development Fund).

There are some funds managed by European Commission for co-operation among the Member States (the project is carried out by consortia which include minimum two or more organisations from the EU Member States). Other funds, as Structural funds, are managed by Member States or regional authorities, and the European Anti-Fraud Office (OLAF) audits how EU funds are spent.

More than a third of the EU budget is devoted to the Structural funds and the cohesion funds. These funds are used for regional development and economic and social cohesion in the EU to improve competitiveness and growth potential at local, regional and national level. The objective of EU funding under regional policy is to promote solidarity and to reduce the gaps in development among the regions and differences among the citizens in terms of wellbeing.

The primary responsibility for rightful spending of the European Funds and for prevention as well as for detection of irregularities rests with the programme management. Although Member States and programme management authorities make efforts to protect that European Funds are used for realisation of projects of general interest, there are still numerous cases of irregular and illegal activities prejudicial to the Community budget. In order to discourage fraud activities, programme manager and auditors must conduct a combination of joint efforts. In particular, they need to be alert with regard to fraud in the procedure of granting the finances to the beneficiaries.

***Methodology*:**

This study represents a qualitative analysis based on some theoretical issues revealed by European and national literature in the field, as well as on a comparative analysis between member states, correlations and synthesis which can offer some answers to the questions about how much fraud is committed in the EU structural funds, who are the "champions" of fraud in the last years and who has the responsibility for rightful spending of the European Funds. Our analysis is structured on 4 parts: a) Romania and the European Funds b) Irregularities and fraud in the management of the EU projects; c) Management tools of Member States to prevent frauds in EU funds- a comparative analysis of administrative measures; d**)** Conclusions regarding Romanian administrative measures to better prevention of cases of suspected fraud

***The Structural Instruments*:**

In the financial cycle 2000-2006 there were 4 structural funds: a) European Regional Development Fund (ERDF) investing in infrastructure, supporting job creation &Entrepreneurship; b) European Social Fund (ESF) investing in people; c) European Agricultural Guidance and Guarantee Fund (EAGGF) and d) Financial Instrument for Fisheries Guidance (FIFG). We can observe some changes for the financial cycle 2007-2013 with a reduced number of structural funds, from 4 to 3: a) European Regional Development Fund (ERDF); b) European Social Fund (ESF) and c) Cohesion Fund. The management of these funds is made jointly by the EU and authorities in the EU countries. No more changes are observed for the financial cycle 2014-2020.

1. Romania and the European Funds

Romania's performances in anti-fraud fight before accession:

- Romania is the first country of the Member/Acceding /Candidate Countries which has an exclusive institution (DLAF) for the protection of Community's financial interests;
- Romania is the first country of the MS/AC/CC which carried out joint on-the-spot controls with OLAF;
- Romania is the second country of the MS/AC/CC which implemented a National Antifraud Strategy.

"The model implemented by Romania in 2005 for the protection of European funds, through the creation of the Fight against Fraud Department – DLAF, is an example for all Member States and candidate countries.**"**[Brüner, F.H, Director General of the European Anti-Fraud Office – OLAF, 2006]

Romania and the European Funds after accession [Excerpt KPMG, 2013]***:***

- Romania's European Funds allocation for 2007-2013:
  23.53 billion euro (17.9% GDP).
- Payments to Romania from European Funds in 2007-2012:
  2.78 billion euro
- Romania: very weak absorption rate in 2007-2012 :
  12% payments /projects (av. 44% in the New Member States)
- Romania: lowest contracting rate:
  70% (av. 83% in the New Member States)
- Romania: the biggest difference between contracted amount and payments:
  70% vs. 12%

2. Irregularities and fraud in the management of the EU projects

2.1 Management rules for cost reporting

The costs of the EU funded projects must be reported to the European Commission [Romano, V, 2013] and the following management rules for cost reporting must be respected:

- Ensure that all activities are implemented according to EU and national rules
- Hold documents related to the implemented activities for at least 5 years after the end of the project
- Keep a separate account or an appropriate accounting system for all accounting related to the project
- Inform the EC about the technical and administrative implementation of the project

- Provide all the documentation and be available for the control boards of the EU.

2.2 Fraud vs. irregularity

An irregularity is the result of the errors committed both by beneficiaries claiming funds and by the authorities responsible for making payments. The official definition of *"irregularity"* is *any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them.* [Art.1 (2) of Regulation (EC) No 2988/955]

An 'irregularity' in Structural Funds terms includes any administrative or financial mismanagement that comes by act or omission by an economic operator which has or would have the effect of prejudicing the general budget of the Communities or budgets managed by them, by charging an unjustified item of expenditure to the Community Budget.

Irregularities can arise due to human error, due to serious failings in management and control systems designed to ensure correct accounting and compliance with rules and regulations. All error amounts over €10,000 must be reported to the Commission in an irregularity report.

Some examples of Irregularities based on evidence collected at a monitoring, verification or audit visits:

- An *incorrectly calculated grant claim*;
- *Ineligible expenditure have been included* in the calculation of grant previously claimed and paid (for example, Banks fees included in error; VAT is recoverable by the beneficiary and should not therefore have been included in expenditure returns; Pensions not paid into a managed fund; Funds for travel and subsistence found in Capital expenditure returns);
- *Insufficient documentation* to support expenditure declared;
- *Inflated progress* against targets/objectives included in previous progress reports;
- Failure of requirements in *publicity or procurement implementation.*

2.3 EU-expenditure fraud in the management of EU projects

An irregularity may or may not be a fraud. If an irregularity is committed intentionally it's *fraud*, it's a criminal offence, is a deliberate act of trickery intended for personal gain or to cause a loss to another party.

Fraud can be defined as "*Deceit, trickery or sharp practice or breach of confidence perpetrated for profit to gain some unfair or dishonest advantage'* [Collins English Dictionary 10th edition]

The question is what constitutes EU-expenditure fraud? The European literature in this field considers the following most common frauds:

- The use of false or falsified documentation or declarations is the most frequently used method leading to wrongful payment of funds from the EU budget or budgets managed by the EU
- Nondisclosure of required information with the same effect
- Use of resources in a different way than foreseen in the project
- Falsification of administrative, financial and legal documents during project submission and reporting

An example is given by a criminal syndicate have been charged with fraud for fake research projects. They created a cross border network of fictitious companies and subcontractors. To make the companies seem legitimate grant applications included names of real scientists and established research institutes and companies without their knowledge [Nature News, 2011].

- Potential conflict of interest (undeclared)

An example is given by an EU-funded highway construction project, near Salerno (Italy's Calabria region). OLAF and the Italian investigators, found evidence of €388 million lost in EU funds by transport authorities. The investigators uncovered *conflicts of interests* where Italian officials were awarding contracts to companies they also worked for. OLAF investigators recovered €388 million of EU funds but the money returned to the EU budget invariably came from the Italian taxpayer [EUobserver, 2012].

- Subcontracting of activities against national law and/or "best value for money" principle
- Misuse of funds for purposes other than those for which they were originally granted.

In this latest category, EU Funds are being spent on the completely different way than they should be, according to the project (and priority axis). There are projects spread all over Europe that claim one goal and serve another one, which is considered as fraud. Some examples for misuse of funds:

The European Court of Auditors (ECA) audited 24 investment projects for public buildings in the Czech Republic, Italy and Lithuania, since these were the countries that received the most Cohesion and Regional Development funds for energy efficiency measures between 2007 and 2013. "*Only 10% of EU cohesion funds earmarked for energy efficiency - in total worth €5 billion - are being used correctly. Member states were essentially using this money to refurbish public buildings while energy efficiency was, at best, a secondary concern*." [Wögerbauer, *H.*, 2013].

In Poland, the project **„***Building a retention basin Niewiadoma, main Basin object",* co financed from European Regional Development Fund: there are some companies that plan to launch restaurants, recreational and leisure services like kayaking" [Romaniuk, 2013]. In Latvia, a factory for production that was built in less developed region (the costs were 1.9 million EUR), never started working, even if it received final payment from EU funds in August of 2008. The project implementer exists only on paper without any turnover or money in bank account.

Some authors consider all errors as irregularities divided in fraudulent and non fraudulent. Liberatore, U [2013] presented case studies of irregularities/fraud in European Funds terms grouped by the following macro-areas:

- Failure to fulfill obligations undertaken 18%
- Other false documentation 16%
- Incomplete and/ or incorrect documentation 15%
- Unlawful expenditure 14%
- Fraudulent Behaviors 8%
- False invoices 7%
- Violations of public procurement procedures 6%
- Errors in the form 4%
- Lack/loss of requirements 3%
- Violation of the industry related regulations 3%
- Others 6%

We can see more than 60% of the irregularities /fraud grouped in the first four macro-areas.

2.4 The dimension of fraud committed in the European Funds

As a result of the 3 500 investigations OLAF has completed since it was set up in 1999 by 2012, over €1.1 billion of EU money has been recovered (excluding financial penalties), 335 individuals have received prison sentences totalling 900 years and OLAF has recovered on average €100 million a year [Fraud in figures, EC]. In 2013, 15779 (fraudulent and non-fraudulent) irregularities were reported to the Commission, involving an overall amount of about EUR 2.14billion, of which about EUR 1.76 billion concern the expenditure sectors of the EU budget. In the same time, 1609 irregularities were reported as fraudulent (this includes both suspected and established fraud), involving EUR 309 million in EU funds [Fight against fraud 2013, EC].

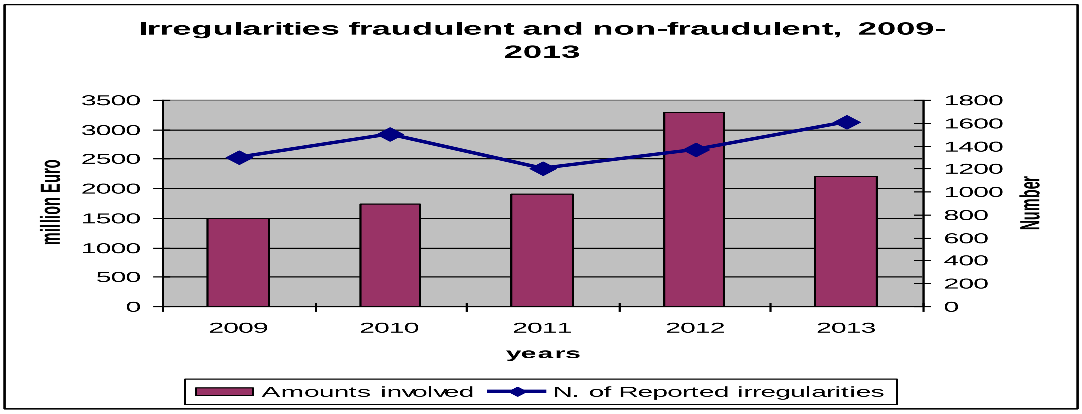

Figure 5: Number of reported irregularities (fraudulent and non-fraudulent) and amounts involved
Source: author, based on Fight against fraud 2013 Annual Report, EC 2014 and The Structural Funds in 2011, EC COM/2012/0633 final

Two-thirds of the EU fraud concerns just six countries

An analysis of the Structural Funds in 2011 made by European Commission [COM/2012/0633] reveals ***"the champions"*** of fraud in the management of the EU projects. "*About two-thirds of alleged EU fraud concerns just six countries: Bulgaria, Romania, Greece, Italy, Poland and Spain*"**.** Some changes were registered in 2013 [EC, SWD (2014)] when the Member States who detected and reported the highest number of fraudulent irregularities *by budget sector (expenditure)* are: Italy, Romania, Bulgaria, Poland, Denmark and Greece (between 302 and 55). In terms of the amounts involved, the highest figures were reported by Italy, Poland, Romania, Greece and Germany (between EUR 68 and 24 million). *For agriculture*, the irregularities notified [EC, SWD(2014)] by four Member States (Bulgaria, Denmark, Italy and Romania) represent about 75% of the total number of irregularities reported as fraudulent, but the number of irregularities reported as fraudulent also increased for five other countries (Czech Republic, Greece, Spain, France and Poland). As typical fraud found for these countries it is noted: false declarations; false invoicing; false or exaggerated (double/triple) cost claims for inputs or services; tendering through false or exaggerated bids, cartel bids, illegal or irregular sub-contracting; fraud and irregularities resulting from undisclosed conflict of interest.

Member States with a higher irregularity rate can perform far better than others

There are different opinions regarding "*the champions*" of irregularities and fraud in the management of the EU projects.

A Report from the Commission to the European Parliament and the Council [EC, COM (2011)] presented some arguments why a higher number of cases reported *does not necessarily mean* that more irregularities are committed or that a Member State is more vulnerable for irregularities. For a country with "*a more developed audit strategy, tailor made audits, higher number of performed audits, better trained or instructed auditors and so forth will normally lead to a higher number of detected irregularities".* The conclusion could be: ***"****It is possible that Member States with a higher irregularity rate perform far better than Member States with a lower irregularity rate".*

But in the case of Romania, Buggenoms S, Head, Audit Unit of the Directorate for Regional Policy in the EC considers "*Romania has difficulties in identifying and preventing fraud in the European funds absorption process*" [Buggenoms S., 2012]

3. Management tools of Member States to prevent frauds in EU funds- a comparative analysis

Art.53 b (2) of Regulation 1605/2002 states that Member States are responsible to prevent and deal with irregularities and fraud in the area of shared of the Structural Funds management in order to protect the financial interests of the Community. The Member States are also responsible for setting up management system and control system but primary responsibility for fraud prevention- detecting and investigating fraud - rests with management.

3.1 "Breaking the fraud triangle"

Breaking the fraud triangle is considered the key to fraud prevention in Member States. In the *Handbook of Fraud Deterrence* (2007) three elements are responsible for fraud:

a. *Opportunity*: relaxed internal control systems may give rise to an opportunity for fraud (e.g. deficiencies related to: supervision and review, separation of duties, management approval or system controls);
b. *Rationalization*: a person can develop a justification for himself by rationalizing their acts;
c. *Financial pressure*: personal financial problems or personal vices such as gambling, drug addiction etc

The principal mechanism for reducing opportunity is *strong internal control*, covering in particular adequate supervision and review.

The Managing Authorities in the Member States (MSs) have the responsibilities of strong internal control as the principal mechanism for reducing "opportunity" of fraud; they also have to identify fraud indicators and report irregularities and suspected fraud to OLAF.

3.2. Management Tools for Preventing Fraud: Comparative Administrative measures in Romania and Member States

Administrative measures:

a. National strategies

Romania and 16 other MSs established National strategies using new control and investigation strategies in order to reduce the risk of fraud and to better detect cases of fraud in the spending of the European funds. [COM (2012) 408]

b. General and /or specific fraud indicators

Romania and *18 MSs* make use of specific fraud indicators:

- Categories of irregularities;
- Categories of economic operators;
- Categories of operations;
- Categories of modus operandi;
- Economic sectors;
- Geographical areas of projects;
- Transactions.

Romania as well as *Bulgaria*, *Hungary and Portugal* make use of general fraud indicators identified in a Manual or Guide for the Audit Authority employees.

c. Cost benefit analysis in anti-fraud investigations

Romania and 5 other MSs apply cost benefit analysis when conducting anti-fraud investigations. 15 other MSs (Romania not included) investigate fraud irrespective of the amount involved, and all incidences of irregularities and fraud detected are pursued.

The results of Administrative measures -A Comparative analysis in Romania and MSs

Improvements of the detection record

- Human aspects – enhancing administrative capacity, training of competent staff: 16MSs

- Increase of financial resources, as to reduce the risk of corrupt attitudes and practices, competitive wage: Romania and 15 MSs
- Technical - the drawing up of a handbook and compilation of best practices: Romania and 9 MSs

Better prevention of Fraud

- the strong proactive approach with more irregularities detected before payment : in *Romania* and *24 MSs*
- the higher ratio of accepted eligible amounts by the beneficiary to the managing authorities: in *Romania* and *14 MSs*
- the preventive impact of the *Commission Guidelines on public procurement*: in *Romania* and *15 MSs*
- the preventive impact of the *Commission Note on fraud indicators*: in *Romania* and *15 MSs*
- There are some other outcomes not reported by Romania, but other MSs

Romania adopted in 2011 some *measures at his own initiative* [Implementation of Art. 325 TFEU, 2011] for the protection of the EU's financial interests and the fight against fraud:

1. *Consolidation of the anti fraud regulatory framework***:** the new institutional framework (2011) ensures independent decision making institutional stability, has extended and consolidated the control powers and has endowed Anti Fraud Department (DLAF) with legal personality.
2. *Improving the public procurement system* through organization and functioning of the National Regulatory and Monitoring Authority for Public Procurement (ANRMAP)
3. *Other Measures:* The National Tax Administration Agency (ANAF) has developed the software application '*Traffic Control*' for managing information concerning transports of goods representing intra Community acquisitions, enabling the monitoring and risk analysis of suspect intra Community acquisitions.

Some Romanian observers consider there is a tendency to '*over-interpret*' EU requirements in Romania by introducing excessively complicated and burdensome rules for management and control systems. They paid attention to the negative impact of this trend on the Romanian absorption rate of the European funds and ask for *simplification*.

4. Conclusions regarding Romanian administrative measures to better prevention of cases of suspected fraud

Measures taken within the Romanian administrative procedures after accession to the EU have contributed to better prevention of cases of suspected fraud in the area of the Cohesion Policy and improvements in the risk management system.

1. The Anti Fraud Department (AFCOS Romania) has access to *the Single Management Information System* (SMIS) 2007-2013. The information extracted from that database is used to justify control policies and carry out risk analysis to respond immediately to OLAF's requests concerning the existence of certain projects, the source of financing, the stage of implementation and other project details.
2. The Anti Fraud Department (DLAF) gained access to the *public records database* and other national and European databases (e.g. the central exclusion database); the information extracted from those databases has contributed to improving the risk management system.
3. Some managing authorities have established administrative procedures that cover risk management, management of irregularities and anti fraud control. *The Code of Conduct* adopted on December 2011 is a guide for preventing and avoiding situations involving *conflicts of interest* and/or incompatibilities that may affect the personnel administering non-reimbursable European funds.

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Impact Of The Financial Crisis On Small And Middle Enterprises In Romania. The Differences Between Urban And Rural Evolutions

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Abstract: - Economic literature recognizes the essential role of public policy firms in the economy of any country. Public policy firms are the main source of entrepreneurial skills, innovation, job creation, proving to be the most active sector of the economy and also manifesting as a driving force in Romania's remarkable economic progress. Revealing the economic and social benefits led to consideration of the SME sector as an area of strategic interest for the economy. In 2008 the financial crisis started having a large number of negative effects in Europe, causing large adjustments to the business environment in the Member States. These were materialized into decreased turnover of the businesses, loss of jobs and disorder in the general economic area and social environment. The study aims to determine what were the effects felt by businesses due to lower purchasing power in the household and whether there were mutations in the major sectors of Romanian economy. Firstly, the influence of the effects of the financial crisis on key macroeconomic indicators and how structural adjustment due to new macroeconomic context took place.

Key-Words: - economic crisis, economic growth, business

JEL Classification: - R11, G01, L1.

1. Economic background

The beginning of the new millennium meant economic recovery for Romania, driven by the implementation of the acquis communautaire, expansionary fiscal policy, increased banking flows, the contribution of foreign direct investment and the favorable external circumstances. All of these have created a favorable macro stabilization in a post-transition economy in Romania and facilitated recovery of domestic production.

The global economic crisis was felt in Romania beginning with second half of 2008. This was imported to some extent, in particular by reducing external demand and foreign investors' reluctance to allocate resources in a turbulent environment. But the most important effects occurred due to an overlap of external shocks and a much deeper structural crisis, which the Romanian economy dragged over time.

One of the causes of the economic crisis in Romania was the very engine of economic growth which proved to be unsustainable in the long term. Consumption credit needs, based on current and real estate speculation (at the expense of investment in human capital or fixed capital accumulation) have also contributed to the economic growth once the international context has worsened.

Moreover, fiscal policy was a pro-cyclical one and expansionist budget deficit increased from 0.8% in 2005 to 5.4% of GDP at end-2008. As government revenues were boosted by an overheated economy, increasing government spending in projects with low multiplier effects as well as increasing public wages above productivity. This policy significantly affected the much needed fiscal space for economic recovery.

In early 2009, in order to avoid a bottleneck in financing external deficits and to pay pensions and salaries of civil servants, the government resorted to loans and assistance from the International Monetary Fund, World Bank, European Bank for Reconstruction and Development and the European Commission worth about 20 billion euro. Moreover, policy makers have been forced to cut wages by 25% from the public department due to the steep drop in revenue from the state budget.

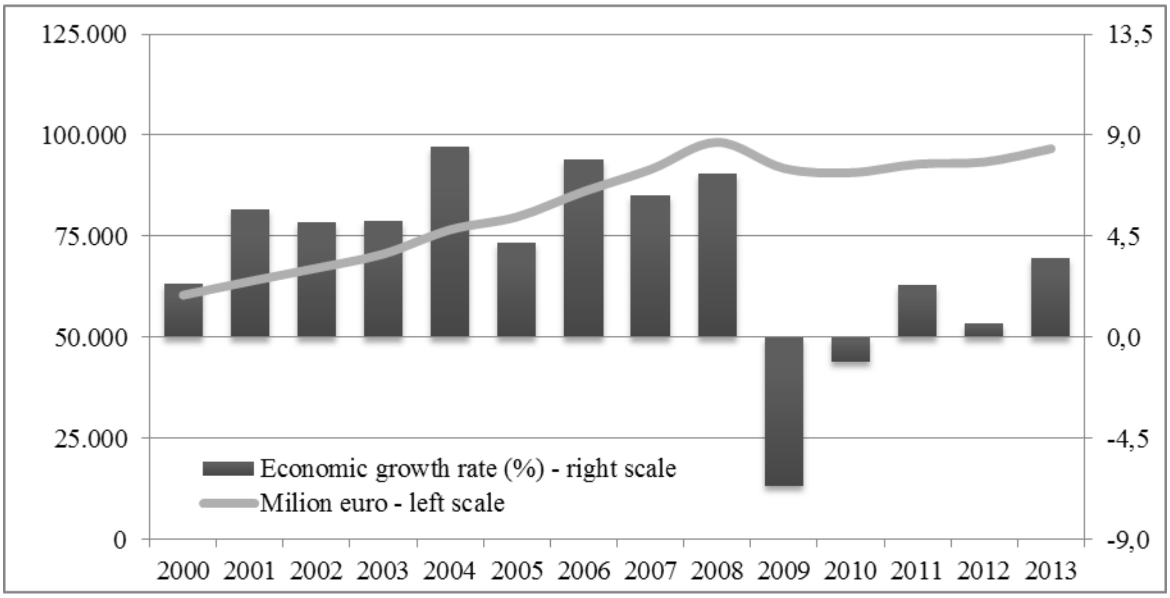

Fig. 1. Evolution of the GDP growth rate in Romania
Data source: Eurostat

The evolution of the structure of GDP shifted over the past 20 years in the Romanian economy. From a share of about 44% of GDP in 1990, the industrial production has come to represent 31% in 2000 and 26% in 2008, amid operating under potential or even closing representative factory in monoindustrial cities. The services sector has significantly increased its share in GDP from 26% in 1990 to 55.6% in 2010, but it's still far from the EU mean (73.7%) (Lazea,V., 2008, p.231). In what follows, the author analyzes the impact of the economic crisis on the Romanian enterprises and how their dynamics influenced the sectoral share of GDP.

2. Impact of the economic crisis

The exceptional economic context of the last decade reflects some of the vulnerabilities and difficulties faced by businesses in Romania. Despite the large turmoil on financial markets, small and middle enterprises (SMEs) were one of the vectors of post-crisis job recovery and an element of overall economic recovery. This article attempts to perform a comprehensive analysis regarding the role of active enterprises in the internal economy, marking the SMEs demographic issues and their contribution to economic progress.

With the adoption of Law no. 31/1990 and Decrees-Law no. 66 and 67/1990, has been registered a veritable "explosion" of new private businesses due to reduced role of SMEs in the pre-transition period. The transition to a market economy in Romania in the 1990s meant, essentially, the evolution of two major components for the local suppliers of goods and services on the market: transfer of ownership of enterprises from state to private individuals (privatization) and the emergence of new enterprises, as a result of private initiative. These two evolutions occurred more or less simultaneously, and at different rates, which generated large effects on the labor market. If privatization of the large industrial hubs has meant in the eyes of the new owners prospects for productivity increase by reducing the number of workers (thus amplifying unemployment), the new private sector created most of the new jobs in Romania, thus absorbing the surplus workers.

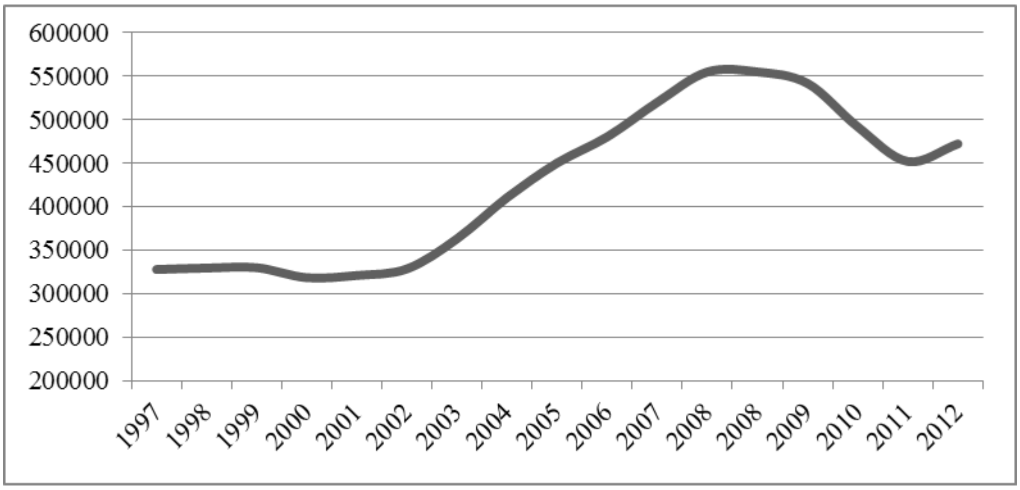

Fig. 2. Evolution of active enterprises in Romania
Data source: National Institute of Statistics (Statistical Business Register Administration - REGIS);

The new generation of businesses has contributed to economic and social progress in Romania. Looking from this perspective, the development of SMEs acquires significant importance both to urban and rural areas. The demographic evolution of SMEe reveals two distinct phenomena, showing sensitivity SMEs to macroeconomic changes and spillover effects of the foreign markets. Thus, there is a steady increase in the time frame 2000-2008, the number of enterprises significant started a significant decline with the first effects of the financial crisis in the 2008-2010 interval. By the mid 2011 the number of active enterprises was reduced at the level of the year 2005.

In the peak year of 2008, the number of registered SMEs in the Trade Register reached the level of 508.266 (more than half compared to 2003). The establishment of new enterprises was encouraged by public policy instruments: fiscal measures aimed to multiply the number of new legal entities rather than strengthening and developing the existing ones. Based on these facts, managers of firms in difficulty tended to abandon the original business, and to start a new business, relying on fiscal benefits.

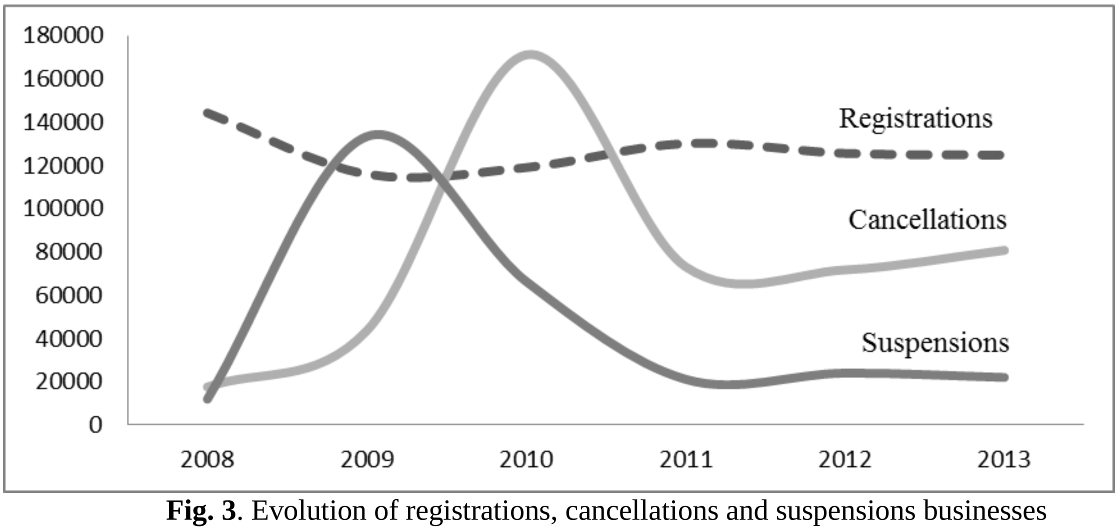

Fig. 3. Evolution of registrations, cancellations and suspensions businesses
Data source: National Office of Trade Register (www.onrc.ro/statistici);

Also the decision of entering or leaving the market was significantly affected by the economic crisis, political instability and the introduction of flat-rate tax that firms was forced to pay regardless of their income. (Government Emergency Ordinance 34/2009):

- Compared with 2008, in 2009 the number of business registrations fell by about 15%. From 2009 to 2011, registrations increased again by about 20%, only to fall back to around 6% in 2012;

- 2009-2010 was revealed as the difficult timeframe for the SMEs. In that interval approximately 171.146 units ceased operations. Also, 2010 was the year with the lowest number of registrations (only 119.048 of start-ups, compared to 144.239 in 2012);
- In 2008, when the first adverse effects of the economic crisis have appeared in the Romanian markets, we notice a temporary gap between the number of suspensions and cancellations. The number of suspensions was higher (17.676) than the erasures (12.019). The situation is explained by the fact that entrepreneurs have used in the first stage of the crisis the suspension of operations because the removal procedure was more expensive and more bureaucratic (according to art. 237 para. (2) of Law no. 31/1990, republished, inactivity duration not not exceed 3 years).

	2008	**2009**	**2010**	**2011**	**2012**
Registrations	24,3%	-2,5%	-8,5%	3,6%	0,6%
Suspensions	-91,0%	100,8%	213,0%	-11,9%	9,1%
Companies became insolvent	-	-	10,4%	-26,7%	-9,4%
Cancellations	-59,5%	-74,5%	133,7%	2,1%	-11,2%

Table 1. The dynamics of SME sector compared to the previous year
Data source: National Office of Trade Register (www.onrc.ro/statistici);

Evolution of the number of registrations and cancellations show similar trends, with different particularities of each area of residence, also collaborated with the evolution of domestic and international economic environment as follows:

- In 2009 the number of SMEs registered in rural areas declined compared to 2008 (33.386 versus 34.188). While in urban areas, the number of registrations has brought a significant decrease (from 80.019 to 60.318 enterprises);
- In 2010, in the rural areas, registrations increased by 6.545 enterprises over the previous year. In contrast, in urban areas the downward trend began in 2009 maintained;
- In 2011, the economic recovery meant an increase of new enterprises, both in rural and urban areas (4.484 - rural, 4.648 - urban).

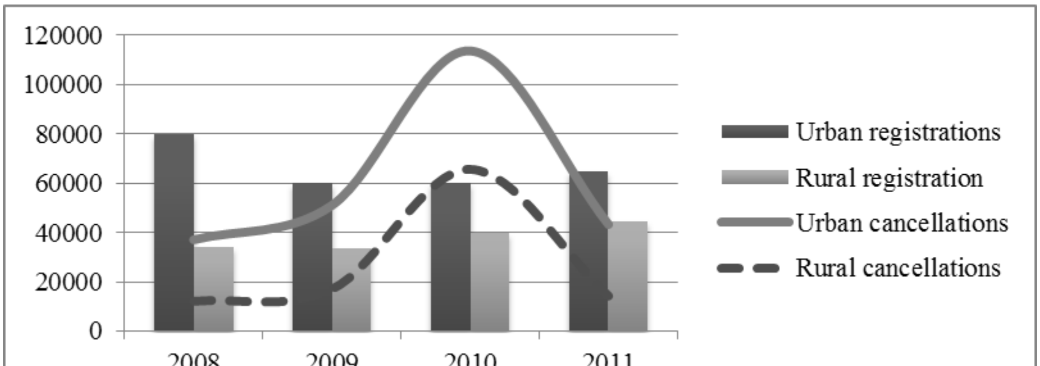

Fig. 4. Evolution registrations and cancellations SMEs by residence area
Data source: National Office of Trade Register (www.onrc.ro/statistici);

As for the evolution of the number of erasures in urban and rural areas we can relate that:

- The trend of erasures, beginning with the year 2008, is similar in both areas of residence, but differ in intensity;
- The year 2010 has proven to be a very difficult year for businesses in rural and even worse for urban areas SMEs. Number of cancellations in the cities of Romania was approximately 2-fold higher compared to 2009;

- The macro stabilization that took place after 2011 and the reduction of fiscal weights was manifested by reducing number of erasures in both cases (rural and urban).

The number analysis of registrations and cancellations, leads to the conclusion that SMEs demography at both the rural and the urban area, is heavily dependent on macroeconomic conditions, the degree of integration in domestic and foreign markets and fiscal policies adopted in the period.

If until the outbreak of the economic crisis in Romania (2008), the ratio of registered firms compared to the cancellations was higher than one (2.2 in urban areas and 2.8 in rural areas), the ratio was reversed when economic conditions became difficult (2010) for SMEs: 0.6 registered businesses per business radiated in urban areas and 0.5 registered businesses per business radiated in rural areas (own calculations based on National Office of Trade Register).Throughout the analyzed period, the amplitude stands higher ratio in rural areas. This shows that the number of registrations or cancellations in rural areas is more sensitive to economic conditions, than urban SMEs. This is an indication that rural firms are less prepared to absorb adverse economic shocks. Also, when conditions are favorable we can remark a spectacular growth of new businesses in rural economies, compared to urban environment. This shows the lack of continuity of business in the rural areas and the fact that Romanian law and banking system does not give enough incentives or support to troubled enterprises.

In addition to the fragility of SMEs in rural economic conditions, we notice a significant gap (rural compared to the national) in terms of their number relative to the population. If in 2012 at national level density was about 19.2 SMEs per 1000 inhabitants, in rural areas the density was only 7 SMEs per 1000 inhabitants (about 3 times lower than the national average and 6 times lower than the European Union mean).

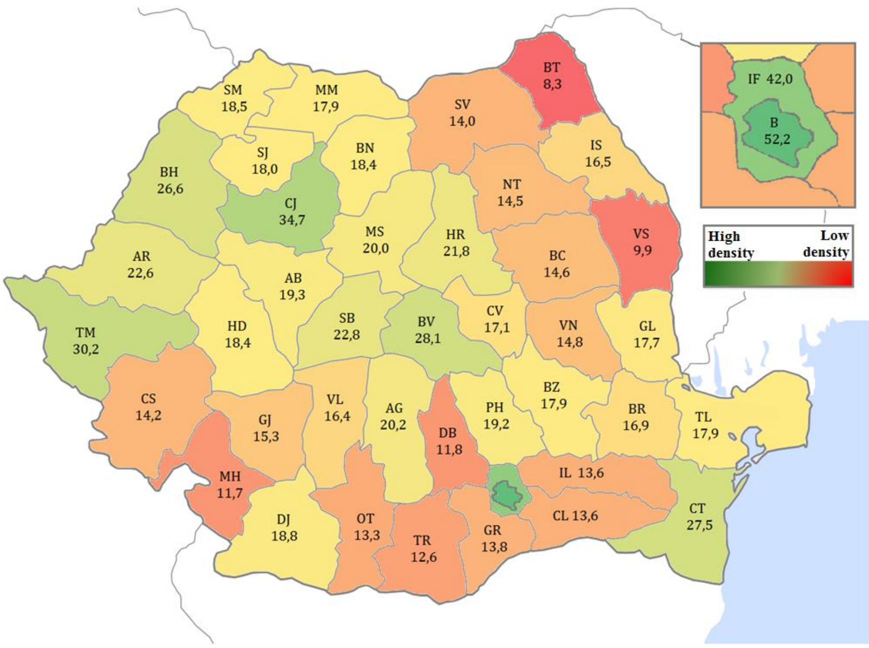

Fig 5. SMEs density at NUTS 3 level in Romania (SMEs per 1000 inhabitants)
Source: map and calculations made by the authors based on the National Institute of Statistics;

Empirical evidence indicates that a high agglomeration of firms is a source of significant economic growth. According to Pîslaru (2012, pp. 139-146) the impact of gross value added of SMEs influenced the growth rate of the national GDP by 97.3%. The economic model used as benchmark the 1997-2010 period. Also, the same authors have captured a 68% correlation between the growth rate of GVA (gross value added) by the SME sector and economic growth. Furthermore the exports of SMEs influenced about 90% the total exports of the Romanian economy.

The evolution of turnover of SMEs naturally followed the path implied by macroeconomic developments in 2005-2012. It is noted in this growing trend of turnover of firms in periods of sustained economic growth (2003-2008), followed by a sharp correction since 2009, when the index declined by 11.4% as a result of decline in sales. Weak economic recovery took effect on growth of turnover of enterprises, indicator rising to the level of 2008. Sales growth was reflected in the year 2012, when there was a spike in turnover.

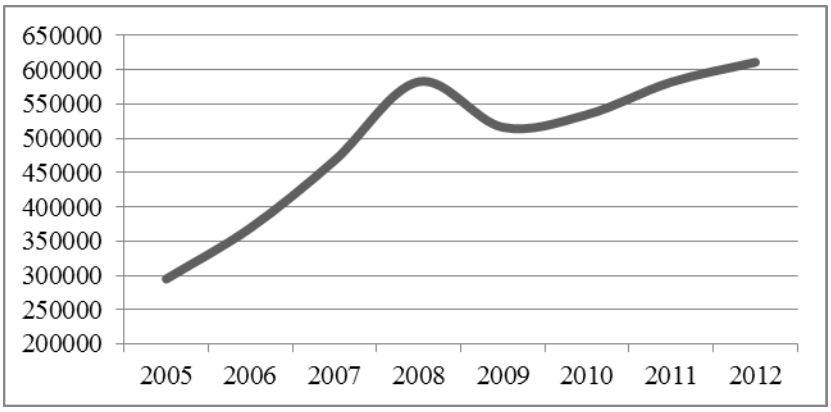

Fig. 6. The global evolution of turnover of the SMEs (million RON)
Data source: National Office of Trade Register (www.onrc.ro/statistici);

The impact of macroeconomic shocks manifested differently depending on firm size class. Thus, while in small and medium enterprises turnover decreased by 10 to 11%, the micro-enterprises managed to maintain their sales and register a positive evolution of the turnover. But change in turnover in the period 2005-2012 reveals major transformations (the changes are also illustrated in Figure 7):

- Medium-sized enterprises, which attained a turnover comparable to small businesses since 2007 becomes the most prominent category, indication of reaching a new phase in the development of firms;
- Small businesses faces the most significant reduction in sales during the crisis, reaching to be overcome by microenterprises regarding the global turnover in 2010;
- Microenterprises record slower growth in turnover during the ante crisis period, but manages to maintain sales during the crisis;
- Throughout the 2005-2010 period, the contribution of SMEs to the overall turnover was higher than large companies. Both during growth and during the crisis, sales trends SMEs was better.

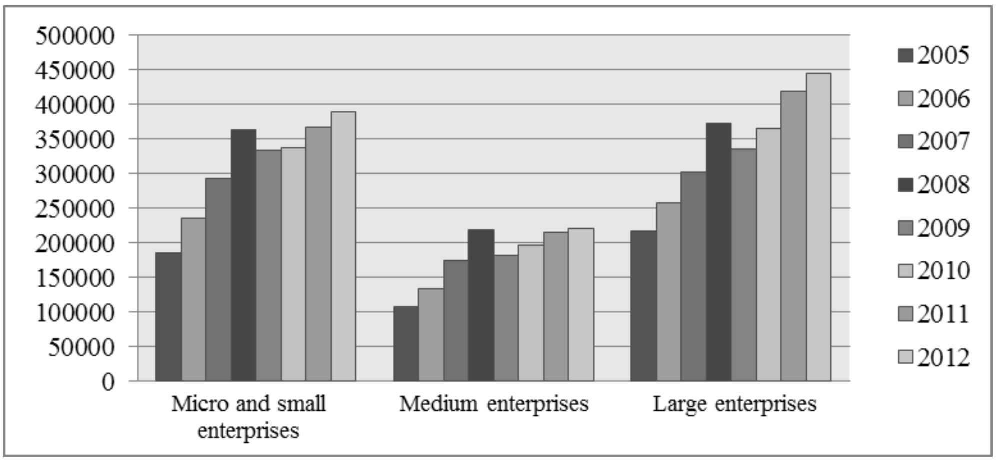

Fig. 7. Evolution turnover of Romanian enterprises depending on size class (million RON)
Data source: National Office of Trade Register (www.onrc.ro/statistici);

3. Structural shifts

At national level, the main sectors in which businesses operate can be determined using two important indicators: the number of enterprises and number of employees in each sector.

In light of the number of enterprises, the service sector is best represented, accounting for about 80% of all enterprises in 2012. Trade is the economic branch in which firms are the most numerous (about half of SMEs Romania are engaged in the wholesale distribution activities or retail). Share of enterprises in manufacturing industry, was around 10% in total of enterprises (their number ranged from 51,849 in 2008 to

46.004 in 2012). Also, within the industrial sector, a small number of businesses are active in the production and supply of energy, gas and air conditioning (1.050 enterprises in 2012) and the rest in mining activities (1.098 enterprises in 2010). The primary sector (agriculture and mining) is represented by an approximately 3.6% of active companies in the Romanian economy. As for the number of employees, manufacturing absorbs much of the labor force (about 1.4 million people), followed by trade and other services.

<table>
<tr><th rowspan="2"></th><th colspan="3">Number of enterprises</th><th colspan="3">Number of employees</th></tr>
<tr><th>Number</th><th>%</th><th>2012 compared to 2008</th><th>Number</th><th>%</th><th>2012 compared to 2008</th></tr>
<tr><td>Agriculture, forestry and fishing</td><td>16.080</td><td>3,4%</td><td>15,41%</td><td>121.632</td><td>2,6%</td><td>5,89%</td></tr>
<tr><td>Mining industry</td><td>1.098</td><td>0,2%</td><td>1,37%</td><td>83.597</td><td>1,8%</td><td>-30,04%</td></tr>
<tr><td>Manufacturing industry</td><td>46.004</td><td>9,7%</td><td>-24,57%</td><td>1.394.550</td><td>30,0%</td><td>-20,65%</td></tr>
<tr><td>Production and supply of electricity, gas, and air conditioning</td><td>1.050</td><td>0,2%</td><td>51,81%</td><td>85.002</td><td>1,8%</td><td>-17,52%</td></tr>
<tr><td>Water distribution; sewerage, waste management and remediation activities</td><td>2.925</td><td>0,6%</td><td>19,11%</td><td>78.190</td><td>1,7%</td><td>11,05%</td></tr>
<tr><td>Constructions</td><td>44.607</td><td>9,4%</td><td>-33,14%</td><td>563.603</td><td>12,1%</td><td>-37,95%</td></tr>
<tr><td>Wholesale and retail trade; repair of motor vehicles and motorcycles</td><td>169.723</td><td>35,9%</td><td>-26,17%</td><td>1.083.985</td><td>23,3%</td><td>-19,11%</td></tr>
<tr><td>Transport and storage</td><td>34.064</td><td>7,2%</td><td>-1,25%</td><td>350.735</td><td>7,5%</td><td>-5,67%</td></tr>
<tr><td>Hotels and restaurants</td><td>23.499</td><td>5,0%</td><td>-0,66%</td><td>145.925</td><td>3,1%</td><td>6,16%</td></tr>
<tr><td>Information and communication</td><td>17.508</td><td>3,7%</td><td>-14,51%</td><td>148.859</td><td>3,2%</td><td>-5,27%</td></tr>
<tr><td>Financial services and insurance</td><td>6.625</td><td>1,4%</td><td>-3,25%</td><td rowspan="4">478.678</td><td rowspan="4">10,3%</td><td rowspan="4">3,43%</td></tr>
<tr><td>Real estate</td><td>12.737</td><td>2,7%</td><td>-15,94%</td></tr>
<tr><td>Professional, scientific and technical</td><td>52.337</td><td>11,1%</td><td>-13,08%</td></tr>
<tr><td>Administrative services and business support service activities</td><td>16.904</td><td>3,6%</td><td>-15,24%</td></tr>
<tr><td>Education</td><td>3.200</td><td>0,7%</td><td>16,22%</td><td>11.300</td><td>0,2%</td><td>19,52%</td></tr>
<tr><td>Health and social care</td><td>9.063</td><td>1,9%</td><td>4,26%</td><td>36.808</td><td>0,8%</td><td>27,62%</td></tr>
<tr><td>Arts, entertainment and recreation activities</td><td>4.738</td><td>1,0%</td><td>-5,32%</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Other service activities</td><td>10.025</td><td>2,1%</td><td>-17,43%</td><td>71.854</td><td>1,5%</td><td>9,57%</td></tr>
<tr><td>Total</td><td>472.187</td><td>100%</td><td>-17,53%</td><td>4.654.718</td><td>100%</td><td>-13,61%</td></tr>
</table>

Table 2. Number of SMEs in the main sectors in 2012
Data source: National Office of Trade Register (www.onrc.ro/statistici);

During the economic crisis, there were some noteworthy evolutions that worth mentioning. Significant changes were recorded in:

- The construction sector: after a sharp increase of the number of firms (over 60% from 2007 to 2008) in the pre-crisis period, amid residential real estate developments, strong economic growth, multiplying yards (the development of large commercial sites, construction and modernization of transport infrastructure, rehabilitation of hospitals and educational institutions associated with EU accession and structural funds absorption etc) in this sector, there has been register a severe reduction (-33.14% in 2012 compared to 2008). Companies from this sector have been most affected by the negative macroeconomic conditions, through the limitation of financial resources and a drastic reduction in the number of real estate projects, both public or private. Thus, approximately 14.782 active companies were removed from the economic landscape in a short period time (2008-2012). Also related services such companies dealing with real estate transactions have significantly reduced their number (-15.9%).
- The service sector: in this branch, there were three areas in which the number of registered SMEs increased: Production and supply of power, gas and air conditioning (increase of 51.81% from 506 companies in 2008 to 1.050 in 2012); Water supply, sanitation and waste management (up 19.11% from 2008) and education sector (16.22% increase from 2008, especially in the private sector). Of course, these areas are not very significant given the small weights in the total active enterprises in Romania, but viewed per whole economic sector, the economic agents providing services have proven sustainability in an unstable economic environment;

- Agricultural sector: an encouraging trend noted among traders in this sector. Number of farms that were market-oriented activities increased by 15.41% due to the possibility of grants intended to develop the rural and agricultural sector (see National Rural Development Programme).

As for the dynamics in terms of number of employees in companies in 2012, compared with 2008, stands the following developments:

- Businesses most affected by the crisis and have made most staff restructuring came from the construction sector (-37.95%, that stands for 155.034 persons), manufacturing industry (-20.65%, 238.681 redundancies, the highest value in absolute terms) and trade (-19.11%, 173,877 persons);
- A part of this workforce was integrated into other economic sectors (especially in firms providing services). Most employments were made in the health and social assistance (14.048 people) Water supply; sewerage, waste management and remediation activities (9.718 people), hotels and restaurants (9.573 people);
- At the end of 2012, most people employed in firms were in the manufacturing industry (30%), followed by commercial enterprises (23.3%) and construction (12.1%).

Small and medium enterprises have also an important role in creating jobs in the economy. In the year 2012, the share of staff employed in Romanian SMEs was approximately 73%. This economic sector provides about three million jobs.

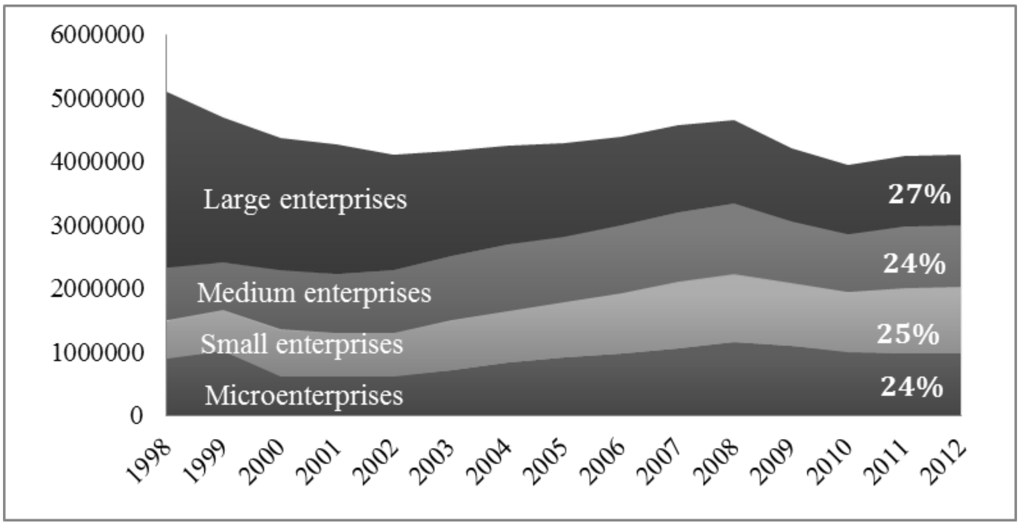

Fig. 8. Evolution of staff in enterprises and their share in 2012
Data source: National Institute of Statistics (Statistical Business Register Administration - REGIS);

Jobs provided by SMEs increased significantly within the privatization process in Romania. If in 1998, the share of employees in the SME sector was 46%, at the end of 2012 it has stabilized around 73%. The growth rate per year in the period 2008-2012 the number of employees was approximately 2% per year. This constant ascent was made with deep restructuring of staff in large state companies and even the private sector within the financial and economic crisis of 2009. If in previous years the economic crisis, SMEs in Romania were an important contributor to the establishment and preserve jobs, this trend was interrupted in the context of the years 2009 and 2010.

Amid global demand reduction generated an decrease in production, whit negative effects on employment. The largest class restructuring occurred in large enterprises and microenterprises. Midsize businesses however tend to return to the values in 2008. This can be explained by the fact that the restructuring measures introduced to combat the impact of the recession were less severe than micro and small enterprises. Unlike smaller companies, there were better opportunities to operate personal adjustments within companies. In contrast, in the micro and small enterprises, the adjustment could not be made without affecting the basic functions.

4. Conclusion

Small and medium enterprises play an important role in any economy and are considered vectors of economic growth, creating jobs and strengthening the middle class in any society. The global economic recession significantly reduced the purchasing power of the population, hence lowering the demand for goods and services provided by businesses, which induced a restructuring of the available jobs, reducing the number of active enterprises, decrease turnover and limiting investments. Although the impact was significant, it also triggered this effect of rehabilitation, meaning that competitive businesses learned to survive in harsh conditions, increasing their productivity through the restructuring process and increasing organizational innovation. This reinforces the idea that SMEs demonstrate a potential for adaptation to the conditions of negative macroeconomic circumstances.

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BOOK REVIEW

A Personal, Debatable and Timely View on World Order: Henry Kissinger

Henry Kissinger – World Order, Penguin Press, New York, 2014

Ph.D. FLORIN BONCIU[1]

The concept of World Order had been much more present in the scientific debates and mass-media before 1990 when the world economy were more or less bipolar and the ideas of a dynamic balance of power and of spheres of influence were logically justified. After 1990 at the end of the Cold War a rather false perception became prevalent, particularly in the Western countries, projecting a unipolar world gradually witnessing a universalization of the Western style liberal democracy. This was epitomized in Francis Fukuyama's book "The End of History and the Last Man".

According to this perception the concept of World Order disappeared to a large extent from the public debate. However, this approach was not validated by reality because a world order existed anyway and significant changes took place within it continuously, such as the dramatic events of September 11, 2001. During the 25 years that have passed since 1990 the world became truly multi-polar, with China a serious actor just reaching in October 2014, according to IMF, the status of first economy in PPP (purchasing power parity) terms[2], while the recent developments in Ukraine suddenly remembered the rest of the world that the Russian Federation is a significant player for more reasons than one.

It is exactly under these circumstances that Henry Kissinger published, in September 2014, his view on the World Order[3]. At 91, Henry Kissinger has had an unparalleled direct experience related to World Order, a long term perspective, an US bias and a detachment that comes with the age. For all those reasons his view on World Order is **personal, debatable and timely.** As for the debatable side, some aspects may be helpful. His book generated a lot of comments, some of them very positive (like those belonging to Hillary Clinton4), some of them appreciating the perspective and personal experience of the author5 and some of them rather critical6,7. By coincidence or not, soon after the publishing of the book some information on Kissinger's position during the Cuban missiles crisis have been declassified and heavy criticism has been renewed on his support and advocacy for US military interventions8.Leaving these sometimes opposing views on Henry Kissinger's career and his most recent book we may focus our attention on the topics and the arguments, on the hypotheses and the possible outcomes that are suggested. And it is from this perspective that the reader discovers the book from some statements in its introduction (page 9): the Western world assumed that there is one model and one set of rules, but reality is far from this; the growing interdependences and instant communication determine implications that were difficult to foresee and requirements for instant reaction from the part of the leaders of nations that they can not fulfill in due time because they are weak or not prepared but because it may not be humanely possible. Despite these frightening and impressive conditions humanity needs a world order and Henry Kissinger attempts to provide some historical lessons and some prospects for the future.

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An adept of real politik Kissinger stresses from the very beginning that "no truly global World Order has ever existed". This statement is important because a lot of the debates today are based on the assumption that there is a single world order (in the sense of a multilaterally accepted agreement) and that some actors are bending the rules or at least questioning them. The distinction between "world order" as ***a state of fact*** and "world order" as ***a multilaterally accepted agreement or system*** is extremely important not only for a better understanding of the world of today but also for the attempt to design a more stable and feasible world of tomorrow. Also at the beginning of his book Kissinger draws the limits of his approach: he is not writing about world order in itself, but about the regions of the world with different concepts of world order that inter-acted and shaped the world of today and will continue to do so with the world of tomorrow.

In Kissinger's view the characteristics of the world of today may be approximated by the situation in Europe after the Thirty Years War (1618 – 1648) and the Westphalian Peace that followed. That order was based on the acceptance of "division and multiplicity" (page 11) and, very important, had not been conceived as a global order and, in this context, did not include Russia, China or the Islamic world (that included Arabia, Middle East, North Africa, the Mediterranean area, the Balkans and Eastern Europe) that were governed by quite different political philosophies. If those were the initial limitations of the European order, the American view on this subject had started to emerge based on the idea of achieving peace by the spread of democratic principles. Given this historical framework Henry Kissinger is fully justified to speak about "varieties of world order". At the same time he notes that the Westphalian principles (even if they were not designed for the world scale) were the only ones that allowed, at least in principle, for a world application. The Westphalian approach was a state based system that recognized national independence, sovereign statehood, national interest, and noninterference. This approach was not perfect but flexible and effective enough to accommodate more than 400 years of history and the emergence of the globalized world of today.

Anyway, as it appears, the Westphalian system has reached its limits and the new realities seem to make it unable to provide a reasonable stability to the world. Some changes that press for this change are notable: Europe decided to renounce the state system, at least to a certain extent, by creating the European Union; the stability of Middle East is affected by Islamic revolution; Asia is economically rising but these have, in many cases, original approaches to the idea of world order which differ from European ones; America is trying to come to terms with the realities of its limited powers in a globalized and inter-connected world where the principles it advocated for so long may be longer fully applicable. Kissinger remarks that none of the major players rejects the Westphalian order as a whole. A yet they understand the idea of order in different ways because their cultures, their histories and their approaches to the concept of order are different.

One relevant idea presented by Henry Kissinger in his book pertaining to any future world order system deserves to be stressed: because order and freedom should be conceived as interdependent, any world order system should be accepted as just by leaders and citizens alike (page 16). So far as the world order is involved the challenge of our times consists in finding a way in which different histories and values "can be shaped into a common order" (page 18). Based on this conceptual framework Kissinger addresses in a large part of his book the experience with world order of Europe, Islam and the Middle East, Asia and United States. Because the book is not a history manual the structure of his approach is not entirely streamlined and also not equal in its depth of analysis. After the presentation and analysis of the European and Islam order models, he introduces the topic of United States and Iran, and then comes back to Asia, United States and the forces that influence today the world order debate (particularly technology and human consciousness, among others).

The relevance for the global world of today of the European historical experience regarding the concept of order is found in the European **acceptance of fragmentation and division as well as the possibility to progress under these specific conditions**. Kissinger is rather brutal in explaining this European characteristic but he is right: none of the European entities had the strength to impose their will on the others in a decisive manner. **Therefore pluralism was a de facto situation that had been accepted rather than chosen.** And this Western European situation gradually influenced and molded the whole known world starting with the 15th century as result of several historical events, among which Kissinger quotes the geographical discoveries, the printing press and the emergence of Protestantism (page 27).For those interested in the 17th century Western European history and the emergence of modern state mechanisms (such as foreign policy based on the balance of power or the idea of state as an abstract and permanent entity) the chapter on the Thirty Years War (1618 – 1648) is very illustrative and can be read as a distinct part of the book.

In this part the century old philosophical and political ideas are blended in a captivating way that may still be useful to explain the world politics of today. A quote from Richelieu can substantiate that: "Man is immortal, his salvation is hereafter. The state has no immortality, its salvation is now or never." (page 30).For those willing to better understand the state behaviour within a given world order Kissinger distils 3 principles from Richelieu prodigious activity: a successful foreign policy needs a long term strategic concept; the disparate elements have to be concentrated into a coherent and purposeful direction; political decisions should bridge the gap between experiences and aspirations.

Based on these developments of political thinking and under specific historical conditions the Peace of Westphalia brought about the modern and down to earth idea of reaching peace by balancing rivalries instead of invoking universal principles, religious solidarity or natural allies. The Peace of Westphalia brought about also other important principles on which the world order of today is based: the equality of sovereign states, regardless of their power or domestic system and even some forms of (religious) minority rights (page 34 - 35). The importance of the Peace of Westphalia as Kissinger clearly points out resides in the fact that it represented "the first attempt to institutionalize an international order on the basis of agreed rules and limits and to base it on a multiplicity of powers rather than the dominance of a single country". Reading this statement we may wonder if the issues of today's world are not coming exactly from the fact that these essential ideas are more or less forgotten. The problems are expanded by globalization that allowed for more and more nations and groups to express their interests while having very different perceptions about the same reality. Kissinger dedicates a detailed part of his book to analyzing how the Westphalian principles were implemented in (Western) Europe during the 17th and 18th centuries and reveals the existence of an uniform perception on the values and unwritten international rules at a time **when aristocrats from all state entities belonged in fact to a single elite.**

The Enlightment period further developed the foundations of Western democracy among others with the significant contribution of the rationalist approaches of Montesquieu and Kant. The rationalist approaches were anyway confronted by a new reality once with the French revolution that demonstrated that **international order can be challenged not only from the outside of a state but also by internal forces**. In Kissinger's view the theories formulated by Jean-Jacques Rousseau during the French Revolution prefigured the modern totalitarian regimes. The major change in comparison with the Westphalian principles that was brought about by the French Revolution was the stating of "the impossibility of permanent coexistence between countries of different religious or political conceptions of truth, and the transformation of international affairs into a global contest of ideologies to be fought by any available means and by mobilizing all elements of society" (page 50). Reading this part of the book one may wonder if it was the lack of general knowledge on the French Revolution details that allowed two centuries later larger scale replicas of eliminating all real or presumed opponents during the early stages of Soviet Russia or during the Chinese Cultural Revolution. The later consequences of the French Revolution determined (in the impersonation of Napoleon) another important idea that may influence to this day the world order: **the idea of a "Great Man" that creates history and is the guarantor of its creation.**

The implications of this idea were tremendous both from a positive and a negative point of view. Leaving aside other commentaries a parallel arises to the mind of the reader: it was the result of Napoleon's wars that brought Russia into Europe (to the point of its participating to the occupation of Paris in 1814) and, in a similar way, it was the result of Hitler's wars that brought back Russia into Europe in 1945.

In the context of the consequences of the Napoleonic wars and of the presence of Russia in Europe Kissinger draws a number of important conclusions regarding the long term regularities to be found up to this day in Russia's manifestation as a significant power. He also points out how history, and particularly the geographical location and the two and a half centuries of Mongol suzerainty shaped Russia into "a uniquely Eurasian power, sprawling across two continents but never entirely at home in either" (page 56). Kissinger's view on the historical becoming of Russia is of particular interest for the understanding of its contemporary behaviour. He makes thus a clear distinction between the Western world where the Westphalian concept of order based the security on the balance of power and restraint on using power and the Russian experience after the Mongol invasions in which the restraints on power could lead to a catastrophe and as a consequence the domination of the surroundings is an absolute must. It is interesting to remark that geography allowed Russia to have no natural borders except the Arctic and Pacific oceans and thus its expansion was on average every year with 100,000 square kilometers between 1552 and 1917. Quite an amazing and less known fact.

In his historical presentation of the milestones of world order Kissinger outlines the importance of the Congress of Vienna in 1814 that marked both the end of Westphalian order and a continuity of some of its principles. As Kissinger formulates, maybe the main task of the Congress of Vienna was to "achieve some reconciliation of perspectives shaped by substantially different historical experiences” (page 68). A blunt observation in the context is that “Germany has for much of history been either too weak or too strong for the peace of Europe.”

An important idea related to world order that resulted from the Westphalian Peace and the Congress of Vienna was that the reliability of a world order system is reflected by the degree to which it achieves **a balance between legitimacy and power**. Having in view this idea we may explain quite easily the present day geopolitical situation using Kissinger’s words:” When that balance is destroyed, restraints disappear, and the field is open to the most expansive claims and the most implacable actors; chaos follows until a new system of order is established” (page 72).

As world order is dynamic by definition, the system proposed by the Congress of Vienna was affected in the middle of the 19^{th} century by the rise of nationalism, the 1848 revolutions and the Crimean War. A lesson drawn from that period was that “in international affairs a reputation for reliability is a more important asset than demonstrations of tactical cleverness”. Unfortunately, such lessons are too often forgotten and the price paid is the repetition of the respective lessons. Or, as Hegel formulated: “What experience and history teaches us is that people and governments have never learned anything from history, or acted on principles deduced from it.”

The unification of Germany in 1871 opened the way simultaneously to less flexibility in the international order, need for more diplomatic activity and an increased risk of conflicts that ultimately led to the First World War. The starting of the war itself is regarded by Kissinger as the result of a series of miscalculations of important European leaders that did not understand the full consequences of their planning. We may wonder again, in today’s globalized world, what would be the prize of miscalculating some plans or of overlooking some consequences. At the end of the First World War the Peace of Versailles in 1919 aimed at securing peace but the new world realities as well as peace construction were way less reassuring than those of both the Westphalian Peace and the Conference of Vienna. The major weakness was that there were no serious consequences for any violations of the rules, something that Germany, Japan or Italy took advantage of. The Second World War was a consequence of this weak European based world order system and the enormous destructions determined by the war asked for a new approach, this time definitely broader than the geographical limits of Europe. As for Europe, the post-war world order had as a prime objective to transcend centuries of history and overcome divisions that were no longer sustainable (such as the French – German traditional rivalry) while accepting the division of Germany.

For the first time after one thousand years, after the Second World War the world order was primary based on the existence of two superpowers outside Europe (the United States of America across the Atlantic and the Soviet Union at the geographical borders of Europe). This time Western Europe took part in the world order only within the consultation mechanism represented by NATO. As Kissinger expressed it, in the bipolar world, America acted “as the managing director of a joint enterprise”. As result, the world order during the Cold War implied two sets of balances: the nuclear balance between United States and Soviet Union and the internal balance within NATO.

The fall of the Berlin Wall in 1989 and the disappearance of Soviet Union and its sphere of influence have been regarded as a triumph of democracy. But from the point of view of world order it created a new challenge because the Cold War world order was no longer applicable. In this new context Kissinger raises a number of questions regarding the future role of Europe both within European Union and in the globalized world without omitting the American interests. The challenge is that in order to have a voice in the shaping of the new world order Europe needs to be coherent and consistent, while the reality is that no such Europe (as a single, coherent entity) exists. The dilemma is that in order to have a voice Europe needs to strengthen its internal construction, but if Europe dedicates too much time to itself it may miss the opportunity to be at the negotiating table (page 100).

After the extensive analysis of the European contribution to the shaping of the world order the next topic in Kissinger’s book is related to Islam and the Middle East. The main challenges of this part of the world which are complex and with deep historical roots consist in achieving a regional order (something which is dramatically lacking now) and ensuring the compatibility of that regional order with the rest of the world. The presentation of the evolution of the Islamic world order reflects its fundamentally different characteristics as compared to the European experience. Due to a rapid expansion on three continents Islam became at the same time “a religion, a multi-ethnic super state, and a new world order” (page 104). The main mission of Islam was to incorporate all regions of the world into a universal system and therefore world order. Anyway, such a universal approach did not pass the test of time and the Islamic world has been divided in variable geometries, despite some periods of glory such as during the Ottoman Empire. The period after the Second World War up to present day preserved this division of Islamic world in frequently changing configurations, some of them at times opposed to the rest of the world, particularly when they considered religious purity as the essence of their proposed world order.

Misunderstandings of the fundamental differences between Islamic and Western approaches, as well as differences in the interests of the members of the Security Council of the United Nations led often to ineffective positions and proposals, more recently during the Arab spring and up to the present. And the blunt result, in Kissinger's view is that: "If order cannot be achieved by consensus or imposed by force, it will be wrought, at disastrous and dehumanizing cost, from the experience of chaos" (page 133).

Another topic of interest in explaining the *de facto* world order of today is that of the Palestinian issue with all its complexity, an issue that reflects a confrontation between the Westphalian concept of world order and that of the Islam. The complexities of the Middle East also include Saudi Arabia, Syria and Iran. Kissinger dedicates an entire chapter to the approaches to order of United States and Iran because this last state represents a key position in the Islamic revolution but also because of its desire to become a nuclear power. In his opinion United States represents the key factor that may influence the orientation of Iran towards the revolutionary Islam or towards a great nation participating in a Westphalian system of states.

Another area of the world economy that receives attention in Kissinger's book is Asia. And an important message is sent to the reader even from the title of the chapter, "The Multiplicity of Asia". It simply says that there is no such thing as "Asia", that is a single entity in the sense we speak about "Western Europe", nor that it ever was. What we call Asia is a complex area, with no sense of common identity, characterized by "major ethnic, linguistic, religious, social, and cultural differences" that rather deepened than diminished in time (page 177). Anyway, what is clear is that the 21st century sees a rise of this complex space and Europe can no longer shape the world order that includes Asia only from its perspective. At the same time, the rise of Asian countries and their position in international matters are perceived as a sort of heritage and reinterpretation of the Westphalian system based on sovereignty and equality to which strong, millennia old cultural legacies are added. The case studies selected by Kissinger for supporting his view are Japan and India. In both cases Kissinger aims to present how the specifics of each culture and traditional political decision making shaped their strategies and definitely will influence their 21st century options. Both historical experiences are vastly different from each other and from European ones, but they are to be taken into account in any conceivable design of a 21st century world order.

The geographical and historical diversity of Asia determines a particular challenge if one thinks about an Asian order. Kissinger himself summarizes that in the title of the chapter: "Asian Order: Confrontation or Partnership ?" Whatever that Asian order will be, China will play a major part in it. At the same time, dealing with China as a relevant global actor requires understanding of traditional Chinese approaches to the rest of the world and the fact that: "China had not sought to export its political system; rather, it had seen others come to it. In that sense, it has expanded not by conquest but by osmosis" (page 217).

As United States and China are *de facto* key players in the contemporary world the need of each one to make efforts to understand the other is of paramount importance. And given the size and the complexity of both Chinese present power and millennia long traditions, as well as the huge diversity of the participants in the Asian space Kissinger draws the conclusion that in Asia order "must combine a balance of power with a concept of partnership". (page 232).

Kissinger dedicates, quite understandably, the largest part of his book to the position and role of United States in shaping the existing world order and in exploring its potential role in the future one. Understanding this role and the so-called American exceptionalism means understanding both the American conviction that "its domestic principles were self-evidently universal" and its "perception that foreign policy was an optional activity". The chapter on America include all significant historical moments (among which we quote, "Woodrow Wilson: America as the World's Conscience", "Franklin Roosevelt and the New World Order" or the post-war period with "The United States: Ambivalent Superpower").

The readers have permanently to keep in mind that "World Order" neither represent the absolute truth, nor pretends to be a history book. The book reflects an American opinion and a personal opinion at the same time. It is from this position that we should note that the belief of all post second World War American presidents was that American principles are applicable to the whole world and that actually America is not representing its interests but fight for some universal truths aiming at "world peace and universal harmony" (page 271).

In the larger context of presenting the post war evolution of world order Kissinger explains the current transition from an unipolar to a multipolar world, meaning simply that America is no longer what is used to be in a rather philosophical manner: "the American setbacks derived from the inability to resolve an ambivalence about force and diplomacy, realism and idealism, power and legitimacy, cutting across the entire society"(page 275).

This part of the book seems more subjective than others but maybe it is so because it describes the direct experience of the whole professional life of Henry Kissinger. Anyway, the presentation of America's post war position clarifies the essence of the American position on the world stage: America is exceptional and different because "American policies were … a disinterested effort to advance the general interests of humanity". At the same time, "other nations had "selfish interests" while America had "principles" and "destiny" (page 283). Reading these statements that defined the way America saw itself in the world order context creates the feeling that in the contemporary, post industrial, globalized, internet based world they are less adequate and far from being efficient. In a diplomatic manner Kissinger himself admits that such approaches may have led to the unsuccessful campaigns in Iraq and Afghanistan (page 322). As Barack Obama recently recognized, America makes mistakes and is not able or intends to solve all conflicts and tensions in the world.

The final part of the book deals with the implications of science and technology, of instant communications and interactivity on politics and world order. Kissinger fears that the qualities required for being a media star and those necessary for a wise statesman may become too different to allow an efficient and effective governance: "Can democracy avoid an evolution toward a demagogic outcome based on emotional mass appeal rather than the reasoned process the Founding Fathers imagined? If the gap between the qualities required for election and those essential for the conduct of office becomes too wide, the conceptual grasp and sense of history that should be part of foreign policy may be lost" (page 349). At the same time, science and technology have opened unprecedented prospects and perils for the humankind. At worst, in Kissinger's opinion, this world based on science and technology may lead to a situation characterized by no limits and no order and lacking even the ability to understand its crises. He explores the implications starting with the nuclear age and the concept of nuclear balance to the challenge of nuclear proliferation (actual these days in relation with countries like Iran or North Korea) and to the present when cyber technology influences the world order in many different and subtle ways, making it more and more ambiguous. The huge challenge is that while cyber space needs some regulations due to its strategic importance, there are for the moment no internationally accepted rules of conduct. The design of such rules is difficult as long as there is no clear and common understanding on the dimensions, implications and risks associated to cyber space. Similar with the real, tangible world, the cyber space or virtual reality is characterized by asymmetries in new ways and with new meanings. Kissinger suggests that a future crisis may arise exactly from this domain (page 343).

Towards the end of the book, one very impressive albeit short part deals with the role of the human factor and, particularly, that of the political factor under the impact of science and technology and of instant communication, access to enormous quantities of data and almost disappearance of privacy. Kissinger suggests that the hypothesis that under such circumstances history will run on auto pilot is fundamentally wrong because "…philosophers and poets have long separated the mind's purview into three components: information, knowledge, and wisdom" (page 345). He also recommends caution in shaping foreign policy in the digital era. Reasons may be replaced by attitudes that reflect "the moods of the moment" and that brings short term vision and all the risks that accompany short sightedness. The danger of the emergence of leaders that try to capture and rely on mass consensus is greater than ever. Particularly one statement is very apt for explaining a lot of the current Ukraine situation: "As diplomacy is transformed into gestures geared toward passions, the search for equilibrium risks giving way to a testing of limits" (page 355).

Conclusions. The book's conclusion's are at the same time philosophical and operational in the sense that they may be used immediately in designing foreign policy responses. The World Order structured after the Second World War is under a profound change in which the Western and non-Western approaches are confronting not only theoretically. The optimistic beliefs of the early 1990 "that the spread of democracy and free markets would automatically create a just, peaceful, and inclusive world" (page 360) are seriously put into question. A key observation is that these differences do not mean only multi-polarity but also "contradictory realities" that may lead not to a new order but rather to a lack of it. Historically speaking such circumstances ask for either a redefinition of legitimacy or for a new balance of power. The most difficult part consists in what Kissinger believes to represent the essence of statesmanship: reaching a balance between power and legitimacy. The statesmen of 21st century face issues on a scale larger than ever because of globalization, because of almost universal communication and interaction among the people on Planet Earth, because we are more than 7 billion and because science and technology can make or break the world. Above all, in Kissinger's words:" history's meaning is a matter to be discovered, not declared". And maybe that is why the key task of politicians is to "explore the outer edge of what is possible".

After reading Kissinger's World Order the reader remains with a sense of reality, sometimes in a cynical sense, with a lot of questions more clearly formulated than before reading it, with more respect for history and its becoming and with a dilemma that Kissinger solved for himself during his whole existence: "If I had to choose between justice and disorder, on the one hand, and injustice and order, on the other, I would always choose the latter"[9].

[9] Rachel Halliburton, Henry Kissinger's World Order: The outer edge of what is possible, The Independent, October 16, 2014, http://www.independent.co.uk/news/world/politics/henry-kissingers-world-order-the-outer-edge-of-what-is-possible-9752563.html