

The Equivalence of Ideologies

“No matter how many instances of white swans we may have observed, this does not justify the conclusion that all swans are white.”

Karl R. Popper

The great error in the dispute of ideas is the belief in capitalism as a global social system, as sociologists put it, a societal system. It must be noted that the error is not dissimilar to the one which has attributed socialism with the same virtue. Whereas, capitalism – as an ensemble of ideas, assumptions, expectations, methods and consequences tied to capital for the purpose of profit – remains attached to a part of society, it is a component among many others. For this it cannot justify its founding as a global social system, but by accepting unidimensionality as a strict universal principle.

The error has an explanation which rather relates to the ideological influencing of individual psychology with the goal of emerging as a *psychology of the masses*.

The construction which has this error as fundament is ancient. It is an expression of the natural order as the infallibility of the birth right to power. It is the pandemic product of vertical dependence. The world has a master and/or classes with degrees of preeminence with regard to the administration of powers, alongside classes with degrees of prevalence as the object of power. “Some and others”, until the simplified positioning “I and others”, “part and whole”, in which a part, always the same, controls the whole.

In time the change was only in the procedures for occupying positions of power by one party, be it a minority, or an individual. We can find in this situation the substance of all hierarchic societal systems, including their modern forms called socialism and capitalism.

Capitalism proves to be an ideology of the same ilk as the one of socialism. Both ideologies resemble each other in the mechanism of the management of power, with one individual, group, clan or favorite class. And, obviously, they both have a similar preference for vertical dependency.

The differentiation – without reaching an essential difference – is the result of the perspective on adversity. They define each other through the method of negation. But each one utters at the same time “yes” and “no”, thinking positively of itself and negatively of the adversary.

Each one claims itself as heaven while proclaiming the other as hell. The people are usually captive in their choice, to not also consider their captivity of political state. Either way, they can only choose the master!

The emblematic equivalence is proved today by the vision regarding the neutrality of regulatory instruments. The centering of capitalism on the market – with all its historical primacy – did not block socialism’s recent option (although there have been similar attempts over time) for the same economic mechanism.

This proves once more that hierarchical systems have no moral holdbacks when they are driven by the precept of “the end justifies the means”.

The complicated part is for the people to understand the sense of the goal targeted from each side of the barricade. No longer having at present a bifocal definition of the intentions of the systems, we could have an identity as long as, at the limit, neither the end nor the preferred means differ from one ideology to the next.

After all, ideologies have a tendency to converge as long as they are shaping hierarchical systems of power. The economic function today is fundamentally the same, beyond the discourse.

The disparities regarding consequences originate on the emphasis made on one factor – capital – or the other – the force of labor – from the function of the economy. The ideological perversion through the extension of the sense of the concept of capital over the other factor as well, seen as human capital – beside being a trick meant to suggest equality of treatment, appreciation even – is superfluous for the essence. It’s somewhat explicitly a case of placing accents in an equation, though taking as a demarcation criterion the bigoted symmetrical trust in the natural rights and the output performance of either one factor, or the other in order to legitimize the preferential appropriation of the consequences. In the logic of the adversely defined hierarchical systems the “tertium non datur” is overtly applied.

Whereas, faith is the substance of ideological approaches while simplification is the method through which power excels.

In the end it is, therefore, a problem of establishing profit as a fundament of power, but the two ideologies see things per contrario: is the capital right to hold the power or is the force of labor meant to decide on the management of power.

The equivalence of essence is perfect. Just that the preference for capital distributes power towards a minority, while the inclination toward the human factor distributes power in the name of the many, without renouncing in some way the principle of the privileged minority. A true identity of methodology!

The natural hierarchy, thus, is being kept. The power is exerted by those justified by their access to resources, chosen by divinity yesterday, propelled by ingenious ideologies today.

Consequently both capitalism and socialism are in the end technologies for distributing power. In this way the ideologies have confiscated global social systems, being in themselves no such systems. They are cleverly entertained illusions with the scope of developing a logic for the adversity of the types of order.

But life has another preference: for the spontaneous order in which it finds its inclusive place and for the market freed from the demands of the adversarial systems. However – natural reaction of the human nature – in this situation tutelary ideologies are being rejected as useless.

Marin Dinu

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The Administrative Convergence in the Balkan Area. Empirical Analysis of Social Policy in Romania and Bulgaria

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Abstract. *In a world of permanent change and movement with interconnected actions that create interdependences, the institutions and administrative systems should be flexible and transparent to adapt themselves to these changes and to create the necessary framework for developing in good conditions all the aspects of the social life.*

In this paper, the attention is focused on the administrative convergence, considering that it is impossible to conceive a strong European construction without the existence of an effective public administration at both levels, national and European, and therefore the research tries to emphasize few signs of convergence between Romanian and Bulgarian employment policy.

Keywords: convergence; Europeanization; public policy; employment policy; comparative policy analysis.

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Introduction

The globalization and intense development of the social systems represent an important trend that embraced our world for the last twenty years. It is a world of permanent change and movement with interconnected actions that create interdependences. The international geopolitical movements, known to our present society, have a visible destabilizing impact upon the public sector, define a new role of the state and orientate the public administration towards client and service (Matei, Matei, 2000, p. 9).

The Europeanization, also interpreted as a globalization process in the European realm, represents a state which is contiguous to the European integration, encompassing, among others, its impact upon the national administrations (Matei, 2004, pp. 29-43).

In this context, the social dimension of globalization increases in importance. The opening degree of an economy may determine the fragility of labour market and volatility of balance policies and efficiency, as well if the respective countries have not institutionally and functionally adjusted to the new economic and social conditions.

Contemporary labour market “can be liken to a ship sailing on an ocean of employment problems. This ship is trying to walk despite the wave of social and economic challenges that seem to surround him from all directions. Public services have to face to some multiple stresses manifested between the efforts to obtain greater efficiency and fundamental ethical values. Public Employment Service is like a captain who feels isolated and needs to work with the others from government and outside who can help him to find the correct direction of the ship and the route which could be the most beneficial”(Thuy et al., 2001, pp. 167-168).

Therefore, in the context of the internal market program, a general expectation was that increased EU integration would imply convergence on the national level. The convergence of governance systems would imply not only common and shared legal rules, but also increasingly similar institutional, organisational, procedural and behavioural arrangements (Rometsch, Wessels, 1996, Meny et al., 1996).

I. General considerations

EU enlargement eastward brought up the capacity of the Balkan states to adapt their administrative structures to the standards and patterns promoted by the EU. These debates have as foundation the traditions, economic values,

social, cultural, administrative of the states in the Balkans in relation to those promoted in Western countries and the EU. Appealing to cultural connotations, we emphasize that, in 1918, in an article in the New York Times, it is used the term Balkanization; it designates the process of fragmentation of some large state entities, as a consequence of historical events in Balkans.

Throughout the Cold War period, the geographers included the Balkan countries into two separate areas: Southern or Mediterranean Europe (Greece, Spain, Portugal, Italy) and Eastern Europe (Yugoslavia, Albania, Bulgaria, Romania, Poland, Hungary, Czech Republic and Slovakia). After the Second World War, Eastern Europe was identified with communism and the domination of the Soviet Union. If we have a look at the evolution of the Communist in these countries, we can easily identify more differences: Bulgaria was the most loyal friend of Moscow, Romania started its communist period faithfully to the Kremlin's leader and later manifested a certain independent attitude in the 60's (Jelavich, 2000, p. 302).

Comparative with Western European countries, Eastern European countries, and especially the Balkan ones, remain less urban and less industrialized than Western countries. The Romance and Germanic languages characterize Western Europe whereas in the East we can find Slavic languages. Catholicism, Protestantism and Judaism are present in this area, but so are Islam and Eastern Orthodox Christianity throughout Europe.

All this complex system influenced administrative systems in Bulgaria and Romania the reason for that we consider the existence of a certain level of administrative convergence, which has its roots in the Balkan model, and which is amplified through the process of Europeanization.

The European Union like others polities struggles with reconciling unity and diversity. The Europeanization affects national political and administrative systems, domestic politics and policies. Even if it is appreciated that at the European level there is a space proper for unifying public policies, there are not applied the same, the diversity being determined by realities of European states, their cultures and traditions, different, unequal levels of economic development, own resources, instruments and mechanisms promoted within the national public policies and the legal and administrative systems of European member states are pressured by a permanent adaptation process in order to correspond to the requests regarding the transposition and application of European legislation (Matei, 2007, p. 4).

The European context has several characteristics that could promote administrative convergence and a European Administrative Space, but also a number of properties that could counteract this trend. Analyses of how national administrative systems and styles respond to EU integration and

Europeanization processes are focusing on three possibilities regarding how Europeanization might affect the differences between national administrative systems (Knill, 2001, p. 49).

1. The possibility of administrative convergence; which is defined by the extend to which domestic styles and structures reveal similar characteristics because the influence of European policies.
2. The administrative divergence situation; this implies the fact that administrative differences across member states are increasing.
3. The possibility of persistence of administrative differences across member states.

In this paper the attention is focused upon administrative convergence, considering that it is impossible to conceive a strong European construction without the existence of an effective public administration at the both levels, national and European.

1.1. What is “convergence”?

The study of the convergence has to describe how the various factors and economic social and political mechanisms act or compete at mitigation of some differences between these entities. While there is a broad consensus on the definition of convergence as the tendency of societies to grow more alike, to develop similarities in structures, processes, and performances (Kerr, 1983, p. 3), the empirical and theoretical assessment of policy convergence is generally hampered by the use of different, partially overlapping concepts. Convergence is discussed in terms of match between EU level principles and rules and national institutions, in terms of game playing or competitive selection (Knill, Lehmkuhl 1998, Scharpf, 1996), and it could be looked at from different points of view.

At root, the meaning of convergence is that countries at a similar stage of economic growth appear to be convergent or as Wilensky (1975, p. 12) says “whatever their political economies, whatever their unique cultures and histories, the affluent societies, become more alike in both social structure and ideology”. According with Pollitt, “administrative convergence” is a term without a clear and agreed-upon meaning, but convergence on a common model implies a reduction of variance and disparities in administrative arrangements. Different administrations develop along the same path in a way that produces more homogeneity and coherence among formerly distinct administrations.

On the other hand, from a “Brussels” perspective, convergence is defined as the gradual process of constitutional, institutional, procedural, organizational and behavioural innovations and adaptations to EU decision in the integration process. Page and Wouters (1995) argue that the power in Brussels provide a

transfer mechanism both for national administrative best practice, thus influencing by Europeanization, the national administrative policies.

In the intergovernmental perspective the convergence effects of EU decision and legislations at national level were linked to pre-acceptance by national decision-makers (Moravcsik, 1993, 1998). But, the convergence would imply not only common and shared legal rules, but also increasingly similar institutional, organisational, procedural and behavioural arrangements (Rometsch, Wessels, 1996, Meny et al., 1996). Wessels and Rometsch have argued that a “fusion” of national and EU administrations has taken place. The end of this process is the convergence that may be expressed by the common characteristics of the administrative models (Rometsch, Wessels, 1996, Matei, 2010, pp. 7-9).

National administrations are also the most important instruments of the governments for pursuing national strategies in relation to the EU. Wallace (2001) represents a more open empirical approach to the issue of convergence. Each country has a set of characteristics deriving from national political and judicial traditions, which imprint national adaptation and practices. To achieve convergence the trend is to incorporate the impact of European legislation and the principles of jurisprudence in family routine of internal policies.

It could be said that when core ideas, competence, resources and institutional arrangements match, or fit, the likelihood for convergence is high. When mismatch is strong, we can expect little or no convergence, or even divergence (Cowles et al., 2001).

Debates and discusses about the hypothesis of the convergence have made, also in the context of the Europeanization and comparative policy analysis, and the idea of convergence occupies a central place in comparative public administration studies and it is very close to the recent studies about policy transfer process. Many scholars have showed considerable interest in cross-national policy transfer. By the 1960s a key focus of policy studies is upon comparative policy analysis. A sub-field of these studies is the examination of the process called policy transfer. The increase in the number and role of international organizations and think tanks, combined with the globalization of information and knowledge have accelerated the production of studies regarding issues of policy transfer, idea very close to the recent developed concept of convergence.

Generally speaking, two schools of thought on the extent and mechanisms of policy convergence can be distinguished. On the one hand, sociological institutionalist theory claims that organisations tend to become similar as they struggle to become more isomorphic with their operating environment (Meyer, Rowan, 1977). Historical institutional theory, on the other hand, stresses the

resilience of national policies and institutions against outside pressures. These arrangements are deeply rooted in national history; in fact, this is the sense of permanence that makes them legitimate in the eyes of national actors (March, Olsen, 1989). Policy convergence is equated with related notions, such as isomorphism, policy transfer or policy diffusion.

Other authors (Hall, Taylor, 1998, pp. 936-955) use the concepts of the neoinstitutionalism, making reference to the sociological approaches and rational choice theory. Their result could be convergence or divergence towards a *transposed national model*, obtained by means of adaptation and “*gradual socialization of the norms and practices inside the EU system*” (Harmsen, 1999, p. 84).

The most essential principles and values that are the basis of the administrative convergence can be generalized in the following way: 1) democracy and supremacy of law; 2) objectivity and neutrality; 3) awareness and transparency; 4) reliability; 5) independent and professional administrative services. From a consequentialist point of view, the member states are expected to converge towards a unique transposed model. Similar developments are expected for the organizations placed in the institutional environment and under a common pressure (Matei, 2010, pp. 9-12).

The researches show few signs of convergence between national administrative systems (Bulmer, Burch, 1998, Olsen, 2003).

1.2. What kind of convergence?

From the analysis of literature it can come off the existence of three specific types of convergence.

1. Real convergence applied in the fields of real economic development using indicators of level of development (performance in time) of economic entities studied (GDP or per person income). In this case the convergence highlights the tendency of approaching or even equalization of the level of development;
2. Nominal convergence applied in the monetary and financial field for observing the levels of economic stability through rates of inflation, budget deficit, public borrowing rate, exchange rate tendency;
3. Institutional and administrative convergence applied in the field of compatibility up to unify of the structures of the administrative-economic institutions from different countries to ensure an efficient operation of them and good communication between countries and regions in order to achieve common objectives.

From another perspective, we see three other types - which we have called interactive convergence, autonomous convergence and deviant convergence (Andersen, 2004, pp. 203-224).

Interactive convergence relies on mutually reinforcing interaction between EU level pressures and national level interests⁽¹⁾. *Autonomous convergence* is a quite common type of local re-contextualization. Adaptation and transformation in organizational and behavioural level takes place within a context of normative, cognitive and legal convergence. EU-level decisions and rules representing general and idealised description of problems. The demands for the member states' adaptation are often expressed as flexible standards and procedures or ambiguous outcomes. Sometimes demands are formulated in very detailed and absolute ways (such as environmental standards), but most often they are not. There are not uncommon those decisions and rules represent general norms and standards to be implemented through the so-called Open Method of Co-ordination (Jacobsson, Schmid, 2002). The open method of co-ordination is a mechanism that allows autonomous convergence. The last type we may call *deviant convergence*. In such situations there is tight coupling with respect to normative, cognitive and practical arrangements, but at the same time strong pressures towards national de-coupling. It is important to say that such cases are not so common.

Also, the other authors have to distinguish between *attractiveness*, where convergence emerge because one model is generally seen as superior, and *imposition*, where a model is preferred by a winning coalition and dictated to others (Olsen, 2003, pp. 506-531).

Attractiveness signifies learning and voluntary imitation of a superior model. The receivers copy an organizational form because of its perceived functionality, utility or legitimacy. Likewise, a common model can emerge through joint deliberation, or each country facing the same challenges can independently develop similar solutions. Convergence as attractiveness is likely if a single administrative prescription is generally viewed as superior to other ways of organizing the public administration, globally or in the European context. Imposition signifies convergence based on the use of authority or power. A single model penetrates the territory and weakens or eliminates established institutions. The classical theories of EU integration represent a special case, which may be called imposed convergence. This type combines tight coupling between EU level and national level, with respect to both normative/cognitive and practical organizational and behavioural requirements, on the one hand, with weak pressures for de-coupling, on the other hand.

Considering those presented we can conclude that in case of Romania and Bulgaria it is talk about attractiveness determined in 2007 by the desire of both

countries to be EU members and developed from the necessity for adaptation to European standards. The arguments used in the empirical analysis will advocate in this sense.

The specialized studies (Bennett, 1991) emphasize four general mechanisms which may induce national policies to converge:

1. Emulation, characterised by “the utilization of evidence about a programme or programmes from overseas and a drawing of lessons from that experience” (ibid., p. 221).
2. Elite networking, characterised by “the existence of shared ideas amongst a relatively coherent and enduring network of elites engaging in regular interaction at the transnational level... Unlike emulation, the policy community engages in a shared experience of learning about the problem”(ibid., p. 224).
3. Harmonisation “driven by a recognition of interdependence” (ibid., p. 225) and characterised by “the coincident recognition and resolution of a common problem through the pre-existing structures and processes of an international regime” (ibid., p. 227).
4. Penetration, “in which states are forced to conform to actions taken elsewhere by external actors” (ibid., p. 227).

II. Employment policy convergence of Romania and Bulgaria. To be or not to be?

The occupation remains the balancing factor and streamlines the functioning of the labour market and stimulates growth.

The first essential document in the structure of European strategy on employment is the Treaty of Amsterdam (1997), as it is being found for the first time the concept of “coordinated strategy for employment”. In this treaty it was included a title with regarding on employment in which achieving a high level of employment is set out not only as being a key objective for the Union, but is even defined as a matter of common European interest. Among the most important meetings for the development of the European Employment Strategy are those in Cardiff (1998 - Cardiff process - economic reform and market), Cologne (1999), Lisbon and Stockholm (2000), Barcelona (2002). In March 2000, the European Council in Lisbon set as the strategic goal for the next 10 years to make the EU in the most competitive and dynamic economy in the world based on the knowledge, capable of sustainable economic growth with more and better jobs and greater social cohesion”.

Because after four years of launching the project the results were late to appear, a group of specialists, coordinated by the Dutch Prime Minister Wim

Kok, did an analysis of the situation and published in November 2004, report entitled “Facing the challenge”. The conclusion of the document was that the results obtained until then by the Member States are somewhat disappointing and that it appears necessary to adopt new Lisbon Agenda. The report also concluded that passing time can only be achieved through convergent and interconnected actions, supported by all Member States and directed the following five areas (Facing the Challenges, 2004, p. 1) the labour market: the rapid implementation of recommendations made by the European Employment Taskforce, developing of strategies for lifelong learning and increasing active life, making partnerships for growth and employment, 2) the knowledge society: the attractive research field must increase, 3) internal market: completion of the internal market for goods and capital and urgent action to create a single market for services, 4) the business climate: reducing the administrative barriers, improve the quality of legislation, 5) support measures for environmental protection: promotion of policies to improve long-term and sustained productivity through eco-efficiency.

In early 2005 it was launched European Employment Strategy Review, reorienting efforts of Member States to two general objectives: achieving sustainable economic growth and wider and more jobs and better.

II.1. Employment policy in Romania and Bulgaria

For Central and Eastern European countries, functionality of inter-governmental own system represents a priority for their governance, ensuring and arguing by facts its own capacity to adopt, implement and assess the public policy system (Matei, 2009: pp. 189-193).

European employment strategy is a set of common objectives of all Member States, forming an analytical framework and policies to support Member States and social partners in the modernization of labour markets and other structural policies in these countries. The final goal of “Europeanization” of national institutions of Member States of the European Union, and even the candidate states are represented by the inter-operability and institutional convergence in this supranational entity. Although, the convergence argument is in the economic substance and according to some authors it is difficult transferable in administrative plan (Dinu, 2006, Perez de Gracia, 2006, pp. 2433-2440), it could be noticed that the rules and the practices of national administrations will align in time to the same standards, and the similar will lead to unit (SIGMA, 1998, Pollitt, 2001, pp. 933-947, Poole, 2006, pp. 1051-1077).

In order to “measure” the convergence of national policies, one needs to compare political change in at least two countries and assess to what extent they are

moving in the same direction. It is the case of Romania and Bulgaria, the case that we analyze in this work and looking over the relevant arguments. The subject is the employment policy of the labour force in the two countries during 2007-2010, but for a more complete approach we start the analysis with the presentation of several arguments for convergence in the entire administrative system.

The first argument in support of the thesis of convergence between the two countries is the existence of traditions, cultural values, economic, social similarities due to the influence of the Ottoman Empire dominance and then the Iron Curtain in the two states. Therefore, Bulgaria and Romania are the countries of the former socialist block, whose efforts for release were marked by the new democratic Constitution adopted as early as 1991. Becoming an EU member means accepting some common administrative standards, too.

Ziller (1998a, p. 137) observes that member states look to each other for inspiration.

The reforms in public administration in the two countries have endorsed passage from strongly authoritarian type of government and centralized economy to a democratic political system and market economy. The new administrative systems of the Republic of Bulgaria and Romania are based on the adoption of modern models for organization and functioning of the administration to try to be in accordance with the best practices in the countries of the European Union. We can notice that the administrative systems of the two countries have similar administrative structures, which carry out similar functions; for example, the ministries are strategic units for elaboration, planning, methodological assistance and monitoring of the implementation of the sector policies and which are organized hierarchically. Also, the administrative system of the two states has the same organization principles: lawfulness, transparency, subsidiarity, proportionality, decentralization, accessibility, responsibility and coordination, efficiency and effectiveness. From these principles may result and others (SIGMA, 1998, p. 10) specify the two countries.

The evolution towards the European Administrative Space understands convergence on a common European model and may be seen as a normative program, an accomplished fact, or a hypothesis (Matei, 2010, pp. 3-5). So, another argument to support the thesis of the convergence between the two countries is the fact that both are members of the European administrative space and share the same principles of organization of public administration.

The EAS “is a metaphor with practical implications for Member States and embodying, *inter alia*, administrative law principles as a set of criteria to be applied by candidate countries in their efforts to attain the administrative capacity required for EU Membership” (OECD, 1999, p. 9). This was developed by SIGMA with the support of the PHARE projects, in response to

the European Council's requests regarding the process of accession to the EU, formulated at Copenhagen, Madrid and Luxembourg.

This includes a set of standards for common action in public administration, defined by law and enforced by the practices and responsible mechanisms. As members of the European administrative space, public administration in Bulgaria and Romania should refer to these common principles: 1) reliability and predictability; 2) openness and transparency; 3) accountability; 4) efficiency and effectiveness.

Reliability and predictability are attributes deriving from the essence of the rule of law which affirms the law supremacy as "multi-sided mechanism for reliability and predictability" (OECD, 1999, p. 12). This principle may be rephrased as "administration through law", a principle meant to assure the legal certainty or juridical security of the public administration actions and public decisions.

Openness and transparency impose themselves following the reality that public administration is the resonator of the society, assuring the interface with the citizen, the user of its services. In the European Treaties, transparency appears as a value of the good governance.

Accountability means that any administrative authority or institution as well as civil servants or public employees should be answerable for its actions to other administrative, legislative or judicial authorities.

Efficiency is characterized as a value consisting of maintaining a good reasoning between the inputs and outputs, while effectiveness consists in certainty of the fact that the performance of public administration is moving towards proposed goals, solving public problems by legal means.

Therefore, in terms of administrative convergence of employment of the two countries we consider as base the arguments already presented at which we add, specific for employment, a set of common features which result from European social model. Despite intra-European differences, different historical experiences of the European countries it is often referred to the existence of a European social model (other than American or Japanese). The main features of this model are: extended social protection, social conflict resolution through consensual and democratic methods, social dialogue. It is better to notice that each country has its own social model and, in spite of this, the social models of Romania and Bulgaria are based on common values, as above.

II.1.1. The present situation of labour market in Romania and Bulgaria

In the context of the process of economic transition, labour market in Romania has undergone significant changes in the volume and structure of the main indicators of labour. The main problems of the labour market are related

to the new economic context, determined by the global economic crisis, reducing workforce and the occupied population – by maintaining a trend descendent of birth, growth of the external migration and the age of the population – the limited relevance of education for the demands of the market work, the existence of some legal and administrative barriers which affect the working of the firms and, implicit, the creation of new jobs.

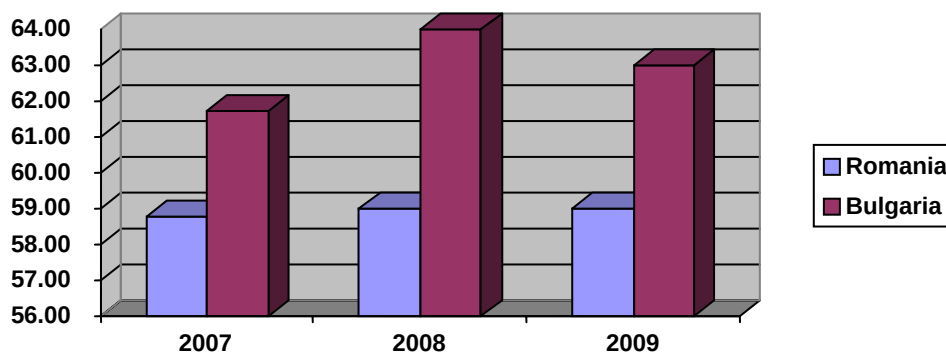
Similar problems are encountered on the labour market in Bulgaria. The analysis of the current situation, trends and potentials for the labour market development allows outlining of several major challenges, unfavorable demographic trends; changing the nature of working life, significant regional differences; restricted labour demand, significant over supply of workforce; unregulated employment. Also, with the new millennium it is found an easy decline of the working population in the last years (2007-2010); in Romania it is seen a fluctuation of the indicator, the employed population. Employment of labour was affected by restructuring and modernizing the economy in both states.

In relation to these changes and the objectives of the European employment strategy, Romania and Bulgaria have developed their own employment strategies and action plans.

Table 1

General structure of labour market in Romania and Bulgaria

	Romania			Bulgaria		
	Active Population ^{(2) (3)}	Employed Population ⁽⁴⁾	Employment Rate ^{(5) (%)}	Active Population ⁽⁶⁾	Employed Population ⁽⁷⁾	Employment Rate (%)
2007	9,994,000	9,353,000	58.8	3,551,300	3,211,292	61,7
2008	9,944,000	9,369,000	59	3,549,000	3,331,000	64
2009	9,979,000 ⁽⁸⁾	9,315,000	59 ⁽⁹⁾	3,503.800	3,281.500	63

**Figure 1.** *Evolution of employment rate in Romania and Bulgaria*

II.1.2. Policy style

In the field of employment on European level unusual dynamic processes are developing which reflect directly the necessity for reforming of the national labour market and are aiming the achievement of much closer binding of employment policy in the framework of the Lisbon Strategy (Great Britain Parliament, 2007).

Until recently, the social policy in Bulgaria and Romania has been guided by the principle of passive social protection, but new social phenomena have led the states to switch to active social policy in order to create a just social order. Both states develop an active employment policy. Through active policy on the labour market (information and professional advice, labour mediation, programmes and measures for employment and training and vocational training, advice and assistance to start an independent activity or a business) the state aims at including permanently the unemployed persons on the initial market, as well as to improve the correlation between demand and supply of labour force.

EU member states including Bulgaria and Romania base their employment policies on three main objectives considered of major importance in the European employment strategy, namely: 1) full employment of labour; 2) improving the quality and the productivity of the work; 3) strengthening the cohesion and social inclusion. The political instrument suggested for their achievement is called “open method of coordination”⁽¹⁰⁾ and “Joint Assessments Papers on employment priorities- JAP” represents the first stage of cooperation in the employment field between the European Commission and members countries and candidate states.

II.1.3. Policy content

Romanian and Bulgarian employment policy is harmonized with the requirements for compliance with the European and international standards, reflected in the European Employment Strategy and its priorities, the recommendations of the International Labour Organization (ILO), the Organization for Economic Cooperation and Development (OECD) and other international organizations. In both countries the employment policy is targeted to increase the employability and to promote the activeness on the labour market of the disadvantaged groups of employment: young people, person with low education and qualification, long-term unemployment, persons with over 50 years of age.

The Employment Strategy of the Republic of Bulgaria was developed on the basis of the following documents: Human Resource Development Strategy 2000-2006, A Joint Report on Assessing the Employment Priorities in the

Republic of Bulgaria (2002), National Plan for Economic Development, Bulgarian Government Program “People Are Bulgaria’s Wealth”, The Social Policy Strategy of the Bulgarian Government (2002) which had the main message of the strategy “Better order and social justice”. For the Romanian strategy the basic documents are: Romanian Government Program, Common Document for Employment Policy Evaluating, National Plan for Development and Human Resource Development Strategy (2007-2013).

Both Romania strategy and Bulgaria strategy emphasize the fact that their objectives are formulated in accordance with the three major objectives of the European Strategy for Employment. The strategic objectives of the two documents are about the same. Romania has proposed the next medium and long-term goals: 1) increasing employment levels of working age population and combating the effects of the structural unemployment; 2) promoting the adaptability of workers and 3) promoting social inclusion and strengthening of the social dialogue, while Bulgaria follows: 1) increasing employment and limiting unemployment; 2) improving the qualitative characteristics of the labour force and the productivity of labour; 3) achieving social cohesion and reintegration of the vulnerable social groups, which have the smallest chances for participation and job placement. For each objective there are a lot of other sub-goals.

The means and tasks for implementation of the above formulated goals may be grouped in the following main dimensions for Bulgaria: 1) active and prevention measures for limiting unemployment and increasing the participation of the population labour force; 2) income policy that promotes employment; 3) promotion of entrepreneurship and providing incentives to small and middle-sized businesses for the opening of more and better jobs; 4) transformation of informal employment into formal one; 5) enhancing the capacity of workers to remain active and introduction of active aging policy; 6) increasing the adaptability of the labour force to the changing economic conditions; 7) increasing the human capital and activation of the life long learning policy; 8) development of the policy for equal opportunities and free labour market that is accessible for all social groups; 9) development of active policy on the labour market that is targeted towards the full social and economic integration of the risk groups on the labour market; 10) limitation and overcoming of the regional disparities on the labour market (Employment Strategy of Bulgaria, 2004-2010, pp. 24-25).

Compared with those, the main dimensions stipulated in Romanian employment strategy are: 1) active and prevention measures for unemployment and inactive persons; 2) creating new jobs and promotion entrepreneurship spirit; 3) promotion of adaptability and mobility in labour market; 4) increasing

the human capital and activation of the life long learning policy; 5) increasing the labour market offer and promotion of active aging; 6) gender equality; 7) transforming undeclared work into proper employment; 8) overcoming of the regional disparities on the labour market (Romanian Employment Strategy, 2004-2010, p. 33).

This analysis emphasizes that in field of employment policy are the same common elements and principles for Romania and Bulgaria.

To this we add the fact that Romanian and Bulgarian legislation is based on the civil law systems (Reitz, 2007, pp. 29-31, pp. 285-287). Employment relationships between individuals and employers are regulated predominantly by the Constitution, the international treaties which Romania and Republic of Bulgaria are signatory and that have been ratified by the Parliament and domestic legislation.

The most important legislativ tool for the implementation of the policy is the Labour Code, but for civil servants we have a specific legislation-public law. Also, it is important to note that resources for the implementation of social policy and financing of active labour market policy, measures and programmes come from state budget and state social security budget.

II.1.3. Policy structure

Because the convergence implies also common structures, let see if in Romania and Bulgaria, in field of employment, we have similar or the same institutional framework. The institutional framework of the labour market consists in institutions with responsibilities and duties related to the development, implementation and monitoring of the employment policy.

The main institutions in Romania and Bulgaria with responsibilities on employment policy are: 1) the Government or Council of Ministers⁽¹¹⁾; 2) ministries⁽¹²⁾, in special, Ministry of Employment, Family and Social Protection (Romania) and Ministry of Labour and Social Policy (Bulgaria) which collaborate with others to implement the social policy; 3) National Employment Agency⁽¹³⁾; 4) teritorial and local institutions; 5) unions and patronages.

Regarding the institutional framework, the European Commission acknowledged the progress made by the national authorities as regards strengthening the institutional framework and recommended to do substantial efforts in reforming public administration.

Conclusions

The answer of the question whether there is a convergence among public administrations is that there are some common values and principles, related to the European democratic tradition and contemporary administrative practice, which have a strong influence on the EU administrative space as a whole and on each of the member states. Therefore, the achievement of a certain level of convergence in a particular national administration is of vital significance for its incorporation in the European administrative space and the transformation of its administrative system is a tool for achieving the desired convergence.

With regard to Romania and Bulgaria the last empirical analysis for validation the different assumption of convergence emphasizes the existence of common features into these two countries. First, we believe that between Romania and Bulgaria exists a same degree of convergence due to the similar historical experiences. Therefore, the countries have same common values and traditions.

According to the general definition given to the concept of convergence “common and shared legal rules, similar institutional, organisational, procedural and behavioural arrangements” the analysis on labour issues in the two states showed a similar social model which is based on about the same principles: legal compliance, reliability, preventive measures, sustainable results, effectiveness, efficiency, coherence. Considering the principles of the social model in Romania and Bulgaria we can conclude that they share the values of Continental model (strong focus on social security and pension systems, the importance given to the trade union).

At the European level there have been developed four types of social model: the Nordic model, Anglo-Saxon model, Mediterranean model, Continental model.

Also, the hypothesis of the convergence between the two states is validated by similar structure and functions of the responsible institutions for policy implementation. In the same time both countries are members of the EURES network, tool that facilitates improving employment.

After the theoretical documenting and the analysis of the statistics data we can talk about the existence of a certain degree of convergence between the two countries of a similar social model and we consider that this tendency of convergence of the administrative systems can be seen in other EU member states.

Notes

- (1) Typical examples are cases where EU level decisions and legislation reinforce already existing tendencies at the national level, as part of a solution.
- (2) Report Romania in figures, 2008; Romania in figures, 2009, p. 17, <http://www.insse.ro/cms/files/publicatii/Romania%20in%20cifre%202009.pdf>, retrieved on January 13th 2010.
- (3) Economically active population (active persons) comprises all persons aged 15 years and over, providing available labour force for the production of goods and services; it includes employed population and ILO unemployed.
- (4) National Statistical Institute of Romania, Statistical Yearbook 2007 available on the website <http://www.insse.ro/cms/rw/pages/anuarstatistic2007.en.do> Employment includes, according to the methodology of “Household labour force survey“, all persons aged 15 years and over who carried out an economic activity producing goods or services of at least one hour during the reference period (the week previous to the recording) in order to get income as salaries, payment in kind or other benefits.
- (5) Employment rate represents the ratio between employed population and total population aged 15-64 years expressed as percentage.
- (6) The data are obtained based on the analysis of activity reports of the National Statistical Institute of Bulgaria www.nsi.bg/Population_e/Population_e.htm, Population and Demographic Processes in 2008, Retrieved on: January 14th 2010.
- (7) Source: <http://epp.eurostat.ec.europa.eu>, Eurostat [tsiem010], and National Employment Agency of Bulgaria http://www.az.government.bg/eng/internal_en.asp?CatID=15/04&WA=NumCharts/LabForce.htm, retrieved on January 14th 2010.
- (8) The data are estimates and are calculated by the authors on reports the National Institute of Statistics of Romania in first three quarters available on the website <http://www.insse.ro/cms/rw/pages/comunicate/arhivasomaj.ro.do> retrieved on January 13th 2010.
- (9) The data is estimate and is calculated on authors on reports the National Institute of Statistics of Romania in first three quarters available on the website <http://www.insse.ro/cms/rw/pages/comunicate/arhivasomaj.ro.do> retrieved on January 13th 2010.
- (10) The open method of coordination tool of the Lisbon Strategy provides a new framework of cooperation with Member States using national policy instruments in order to achieve common objectives in areas that fall within national competence, such as employment, social protection, social inclusion, education, training, post-accession strategy of Romania, pp. 43-46.
- (11) Strategic centers for formation and general coordination of the national policy.
- (12) Strategic units for elaboration, planning, methodological assistance and monitoring of the implementation of the sector policies.
- (13) Executive agency for the implementation of the government policy on employment promotion.

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Employment Strategy of Bulgaria 2004-2010

Convergence of Croatian Financial and Budget Regulations of the Framework and Practices of the European Union

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Abstract. *As of 2004 intensive preparatory activities for the accession of the Republic of Croatia into the European Union have started. Significant changes have been taking place in legislation, institutional and administrative respect. The so called “silent reform“ is changing the appearance and the way of work of state administration. Institutions acquire the rules and way of work of the European Union through the usage of pre-accession programmes. General opinion moves in the direction of successfulness, competitiveness, attainment of results and added values. Financial regulations regarding stipulation of budget processes have been changing through the introduction of the following elements: strategic planning, multi-annual budget framework, fiscal discipline, internal audit as well as financial management and control system based on clearly set work processes and procedures. This document provides the description of the most significant changes regarding financial management and budget regulations in the Republic of Croatia which have taken place in the course of adapting (developing) the system to the European practices and rules.*

Keywords: reforms; public finance management; European funds; public internal financial control; strategic planning; multi year planning; outcomes; performance.

JEL Codes: E61, F36.

REL Codes: 13F, 20J.

Introduction

The model of financial management, which is to be applied in member states, is not defined by the Community's *acquis communautaire*. However, in the area of fiscal policy and budget management, several requirements are laid down to be fulfilled by member states. The requirements are mostly related to the following: 1) provisions referred to in the Treaty of Maastricht on the European Union (signed in 1992) defining fiscal policy objectives as a deficit amounting to 3 percent of the GDP, 2) criteria of statistical nature and data, 3) procedures in combating irregularities and fraud, 4) regulations on public internal financial control system and 5) the status and manners of external audit work.

In other areas of financial management there are no concrete rules or the EU legal framework which member states obligatorily apply. However, each of member states is responsible for developing its own management system. In this context it is important to take into consideration the need for the following (Richard, 2002):

- clear correlation of the Government's strategic political and economic priorities with the budget,
- ensuring effective and high quality implementation and utilisation of European Funds,
- creating relations of trust with other member states, European institutions, and particularly with the European Commission.

For the purpose of satisfying the above mentioned criteria and expectations set before the member states, the majority of countries has already in the accession phase started with reforms in the area of public finance management. *Reforms* are primarily related to defining and introducing: *the multi-annual fiscal framework, strategic and programme planning, the policy of capital projects management*, special mechanisms of monitoring the implementation of programmes as well as supervision and reporting on *objectives accomplished*.

Through the system of various conditions⁽¹⁾ set by the European Union before candidate countries, the more comprehensive framework is created enabling the implementation of the reforms in practice as well as their sustainability. In order to achieve high-quality adjustments, i.e. the convergence, the harmonisation but also the Europeanization in a wider sense⁽²⁾, it is not sufficient that legal criterion is satisfied but also that all other – political, economic and, above all, administrative criteria are met. The administrative one means ensuring the stability of the institutions and the

capacity to take the obligations derived from the quality of being European Union Member State (Matei, 2009).

Below paragraphs provide for the overview of changes which were encouraged in the Croatian public finance system and budget management in the course of accession process and adoption of the European Union practices.

2. Preparation for the management and implementation of European Funds

Pre-accession assistance programmes⁽³⁾ implemented by candidate countries for their accession into the EU present the preparation for the management and implementation of forthcoming European Funds once a country becomes an EU member state.

By introduction of pre-accession assistance programmes *the European rules for managing public finance* were also partially introduced. In order for these programmes to start being used, the country, i.e. the institutions involved in their implementation are *obliged to satisfy a whole set of criteria* laid down by EU regulations and financial agreements concluded with the European Commission, regarding the implementation of a particular programme.

2.1. Accreditation criteria – public internal financial control system established

Satisfying accreditation criteria is the main condition to be fulfilled for gaining work permission from the European Commission and for managing European Funds. In accordance with the above said, all institutions involved in the implementation of EU pre-accession programmes are obliged to carry out detailed and comprehensive preparations regarding the establishment of control environment, risk management, control activities, monitoring and evaluation system as well as information and communication system. All the above mentioned is defined in the Annex to the European Commission IPA Implementing Regulation⁽⁴⁾ (hereinafter: IPA Regulation).

These areas actually constitute parts of the comprehensive concept of the sound financial management, i.e. the basic components of the public internal financial control system defined by the Law on public internal financial control system⁽⁵⁾.

Therefore, during the period of accession to the EU, *internal financial control system is being introduced into the practice of a candidate country through two processes*. One of the processes includes preparation and utilisation of EU pre-accession assistance programmes for which all institutions must have fully established internal financial control system, in accordance with EU requirements. The other one is the negotiation process in the framework of

which, in Chapter 32 - Financial Supervision, a candidate country becomes obliged to set up and apply internal financial control system.

Through the system of managing pre-accession assistance programmes the Republic of Croatia acquires *practical experience on the European Commission requirements* in the framework of each particular element of the internal financial control system. This experience has been developed since 2004 when preparations for the utilisation of first pre-accession assistance programmes – PHARE, ISPA and SAPARD took place.

At the same time from 2004 in the framework of negotiations the activities on primary and secondary legislations regarding public internal financial control system have commenced (PIFC)⁽⁶⁾.

At the very beginning of 2004, but also during following few years, it was still not sufficiently recognized that these were all identical processes of financial management through which, on one side, the system of EU pre-accession assistance programmes was built, while, on the other side, the processes have been introduced into the existing system in order to improve the financial management of state (and local) budget.

The reason for a separation and a kind of parallel work on the system of managing EU pre-accession assistance programmes and the system of state budget was the speed at which certain knowledge on and elements of the internal financial control system were supposed to be adopted. Therefore, for example, the accreditation process for PHARE, ISPA and SAPARD programmes took place throughout 2005, and it was already then that all institutions managing the programmes were supposed to have regulated and described work procedures, process maps, audit trails, risk management methodology, irregularity management functioning and irregularity officers appointed, including all other elements of the internal financial control system elaborated and established in details. On the other side, legal and implementing regulations just started to be developed and thought over at the national level. The exact elements of internal financial control system were clarified, i.e. the process of learning on the theoretical framework of internal financial control system was underway.

As of 2008 these two processes have been connected for the purpose of speeding up the overall process of developing internal financial controls at the level of central state as well as of local (regional) self-government units through 2009 and 2010 so that Croatia, as a member state, could include as many institutions as possible into the system of managing EU Funds. In this way Croatia would also ensure the most effective and efficient usage of the funds offered. Only those institutions which have implemented all elements of internal financial controls may be a part of system of managing and

implementing EU Funds. A system established and formed in the above mentioned way is also essential for national funds while strict criteria of sound financial management shall also be laid down in the budget system.

The overview of EU requirements is given in the paragraphs below for individual components of the internal financial control system and outlining the changes encouraged in the management of finance and taking place during their introduction and implementation.

2.1.1. Control environment

This criterion relates to the establishment of a *good quality organisational structure and human resources management*. The areas being evaluated are as follows: 1) ethics and integrity, 2) irregularity management and reporting, 3) human resource development comprising organisation development planning, employment policies, education and trainings, manners for motivating employees and retention policy, 4) sensitive work posts' management and prevention of conflicts of interest, 5) legal base for respective bodies – institutions and responsible persons, 6) job descriptions – formally established and followed principles of accountability, clear-cut segregation of duties and delegation of tasks as well as rights and responsibilities throughout the overall organisation. These elements of the control environment are defined in IPA Regulation. The definition of control environment and a part from the Law on public internal financial control system are not identical to the one from IPA regulations. However, in the essence of both regulations the control environment is highlighted as the basis of the internal financial control system which ensures conditions for the effective functioning of controls.

Ministries and other state administration bodies have already developed and introduced the majority of areas above mentioned, and the only issue which stays open is the level and the quality of their application.

2.1.1.1. Ethics and integrity

Code of conduct of civil servants in the Republic of Croatia is stipulated by the Act on civil servants, the Act on servants and employees in local (regional) self-government and by the Code of Ethics of civil servants and employees. These documents define *rules of good behaviour of civil servants*.

Bodies which are not in the system of state administration have their own codes of ethics, e.g. State Audit Office, State Attorney Office or courts.

Bodies using and managing EU assistance funds have manuals which contain provisions on code of conduct and ethics of employees, arising from the above mentioned acts and code of ethics. In these bodies all employees are

obliged, immediately after commencement of employment, to sign the Declaration of Confidentiality and Impartiality.

The European Commission auditors have particularly addressed to the issues regarding the actual functioning of the system: starting with cases of reporting and manners of dealing with non-ethical behaviour up to the trainings on ethics which need to be constantly organised for all employees and which should present a compulsory part of the induction trainings for newcomers.

Although from a legislative point of view we have a well-defined system regarding ethics and integrity, it was exactly the accreditation process, i.e. the course of receiving work permission in bodies dealing with the implementation of pre-accession assistance programmes, that indicated the elements in this area which still need to be further built and enhanced in the overall state administration.

2.1.1.2. Irregularity management and reporting

The procedure of irregularity management and reporting has been developed in the system of managing pre-accession funds as early as 2005, in the framework of preparations for the first accreditation. In all bodies irregularity officers were appointed, and they are obliged to train other employees on the irregularity system and to send irregularity reports on a quarterly basis to the Department for Combating Irregularities and Fraud within the Ministry of Finance⁽⁷⁾.

On the other side, in December 2006 the Law on public internal financial control system was adopted. The Article 36 of the law prescribes the obligation of a head of a body to set up a system for preventing the risks of irregularities and fraud and to undertake activities against irregularities and fraud. The obligation of appointing the irregularity officer who will receive notifications on irregularities and suspicions of fraud or who will independently undertake activities against irregularities or fraud is introduced. As opposed to the system of managing EU pre-accession funds, in this national part the process of irregularity management and reporting has not been described, therefore it is crucial to define the future role of irregularity officers.

In the EU part, one step forward was taken relating to the protection of EU financial interest, the part constituting one of the items in the Negotiating Chapter 32 – Financial Supervision.

The AFCOS⁽⁸⁾ system was established, encompassing the following:

- 1) Network of bodies managing and using EU pre-accession funds (irregularity reporting system; their representatives in the AFCOS system are irregularity officers),

- 2) Network of bodies dealing with suppression of fraud, corruption or any other form of irregularities in the system (AFCOS network),
- 3) Ministry of Finance – Department for Combating Irregularities and Fraud, fulfilling coordinative role within the system and representing a contact-point to the European Anti-Fraud Office (hereinafter: the OLAF).

The Department for Combating Irregularities and Fraud is obliged to undertake activities related to further, professional development of bodies in the AFCOS system, in the area of *prevention, detection, proceedings, reporting and follow-up of irregularities and fraud*.

In accordance with recommendations from OLAF, drafting of the proposal of National Anti-fraud Strategy for the Protection of EU Financial Interest has started.

Subsequent to the described system of irregularity management which was developed for the purpose of protecting EU financial interest, the following needs are to be defined:

- the way in which the coordination between different state administration bodies is to be enhanced in order to ensure effective prevention, detection, proceedings with and reporting on irregularities, and
- the role of the irregularity officer together with work procedures, within the system of managing budgetary funds in which the protection of financial interests also plays an important role.

2.1.1.3. Human resources development

The European Commission particularly highlights this element of internal financial controls, not only during the accreditation period, but also afterwards, during monitoring the quality of system work.

All bodies in the system of pre-accession assistance programmes implementation are obliged to have documents and procedures already adopted, as follows:

1. *annual work plans* with defined: a) objectives that each organisational unit must fulfil throughout the year, b) activities which they plan to carry out in order to fulfil their objectives, c) deadlines of the completion of the activities, and d) indicators by which the successfulness of performance of activities, i.e. the fulfilment of objectives is measured;
2. *workload analyses* outlining the number of people needed for carrying out activities having been planned and for fulfilling objectives having

been envisaged; moreover, on the basis of the analyses, recruitment plans are developed;

3. *training plans* for each employee (defining trainings needed for an employee, when he will have the opportunity to attend the trainings and who are potential trainers, i.e. where the training is going to be performed, etc.) and they are obliged to keep a training register (the list of all trainings for each employee and for the institution as a whole),
4. *procedures for monitoring the successfulness of each employee's performance*, appraising in compliance with the successfulness and awarding in accordance with the marks received in the appraising process.

The above mentioned elements of control environment are difficult to be developed separately, just for one part of the Ministry or a body involved in the implementation of EU pre-accession assistance programmes. *It would be of significant importance to introduce mechanisms of work planning and monitoring the success in achieving results horizontally, i.e. for the overall system of state administration.* Moreover, employment policies, awarding and promotions, have to be developed as a unified instrument, and it is difficult to separate them to be specialised for only one smaller part within the organisation. This becomes particularly visible when taking into consideration the requirements laid down for the utilisation of EU funds. In the system of EU funds implementation it is necessary to develop the following:

- each institution included in the implementation system should have adopted organisation development strategy based on the SWOT analysis of the current state of play, analysis of training needs, recruitment (employment) plans and capacity building plans;
- unified and comprehensive institution development and capacity building strategy for the management of EU funds must be developed, based on the risk analysis of all bodies in the implementation system, including also final beneficiaries, if they are known;
- satisfactory careers' planning and salary strategy.

2.1.1.4. Managing sensitive work posts and preventing conflict of interests

All bodies in the system of the implementation of EU pre-accession assistance programmes performed the analysis of sensitive work posts and identified measures for mitigating risks from potential irregularities or abuse of authority at the sensitive work post. One of the options in managing sensitive work posts is the introduction of the so called rotation or transfer of employees after several years to another work post. Until now this mechanism has not been used in the system, but rather sensitive work posts are largely and closely

supervised in the following ways: internal audits are more often performed and the system of internal control lists is enhanced. *Sensitive work posts' management policy has not been horizontally developed for the overall system of state administration.* Therefore, in this context the regulations should be expanded so that in this part as well we have a uniquely developed system of managing both EU and national funds.

2.1.1.5. Legal base for particular bodies – institutions and responsible persons

This control environment element has been uniquely fulfilled for institutions in the system of the implementation of pre-accession assistance programmes, but also both for all ministries and for other state administration bodies through legal acts and Government regulations establishing particular bodies, and defining both their scope of work as well as the organisation.

2.1.1.6. Job descriptions

In all state administration bodies acts on job organisation and classification have been adopted, outlining and describing all work posts of the body. It is required in the control environment that job descriptions arise from work processes and procedures, and that the audit trail clearly indicates that the segregation of duties and the four-eye-principle are followed. Also, each body needs to have the adopted substitution plan in which the above mentioned principles need to be followed.

The need for the set up of the financial management model among related institutions is particularly important in this part regarding the *segregation of tasks, duties, rights and responsibilities.*

Therefore, in the system of managing pre-accession assistance programmes there is an institution responsible for bringing strategic decisions and for planning, while the other is responsible for the implementation: from public procurement procedure to paying and monitoring project implementation.

In the system of budget and budget users, the analysis of activities carried out at the budgetary user will definitely indicate that, due to the segregation of duties and four-eye-principle, a larger number of employees is needed to deal with activities in financial management processes. In this case it has to be decided that either more people should be employed at the level of a budget user (however, this is definitely not a sound solution) or that particular processes and activities at the level of local or regional self-government unit are centralised. It is crucial to define which tasks need to be performed in a centralised way – at the level of a competent budget of a local and regional

self-government unit, and which activities may be carried out at the user. In accordance with the above mentioned, and in order to ensure that the sixth element of financial management is regularly applied, the Ministry of Finance is in the process of developing the financial management model which will be presented to all local and regional self-government units.

It may be concluded that these six elements of control environment significantly influence the organisation and manners of work. Therefore, in the process of Croatia's accession through the implementation of these elements significant changes take place and they positively influence the quality and efficiency of operations of state administration. Concrete outcomes will be visible at the time when all elements are fully implemented.

2.1.2. Risk management

This criterion encompasses a lot more than just defining, assessing and monitoring risks. A unified methodology of risk management has been developed for all institutions in the implementation system of EU pre-accession assistance programmes. In accordance with this methodology every employee, through their everyday work, detects risks which are detrimental to the accomplishment of objectives which were laid down. They report on these risks, by filling a special risk reporting form, to the risk management officer who keeps risk register. Twice annually during meetings with managers and heads, activities are determined for risks referred to in risk register which are followed in the process of their elimination or for mitigating their impact.

The basic preconditions for the introduction of risk management system are previously described and already implemented elements of control environment, particularly the following: a) objectives are defined through the whole organisation, b) all stages (activities) needed for meeting the objectives are well planned, c) all necessary resources per each activity are defined, d) the segregation of duties regarding specific objectives is clear and set.

2.1.3. Control activities

The quality of the procedures established within each of the financial management processes and the efficiency of their implementation in practice are evaluated in the context of this criterion.

Apart from developed procedures of procurement, payments, budgetary procedures for ensuring financing, procedures for ensuring the continuation of organisation functioning (substitution plan, transfer of knowledge in cases of employees leaving their posts, etc.), accounting procedures, data reconciliation, security, archiving, recording and reporting on weaknesses of the internal

control system, in the context of this criterion it is crucial to develop a system in a proper way to ensure: 1) additional check of all transactions, and 2) active supervision of system work carried out by a responsible person.

The two last elements above mentioned introduce significant changes in the financial management system. All ministries and other state administration bodies which make payments to final beneficiaries are required to introduce mechanisms of on-the-spot controls – *not a single subsidy, donation or assistance may be paid out without a detailed control of activities and costs which the final beneficiary financed from these funds, as well as without the evaluation whether defined objectives were satisfied*. Active supervision of the system work comprises the following: a system defined in detail about reporting on the implementation of activities; regular monthly meetings of responsible persons; monitoring of the fulfilment of work plan and objectives laid down; and finally a responsible person issues a statement by which they acknowledge and guarantee that the system functions in compliance with the rules laid down, and following all the elements of internal control system.

2.1.4. Monitoring and evaluation system

It is required by this criterion that institutions establish a system which will ensure that top-level managers/heads receive independent reports on functioning of the system which falls under their responsibility. In these reports it is important to focus primarily on the *evaluation of the effectiveness and efficiency of the system* and the quality of organisational structure, i.e. on the evaluation of the internal financial control system. For the fulfilment of this criterion one element was essential to be introduced. This was the element of internal audit. During the accreditation process and precisely due to the importance of internal audit in the context of sustainability of operations of the system established as a whole, the EC auditors paid a special attention to the organisation and functioning of internal audit. They also highlighted the need for the urgent capacity building and for enhancing their function.

The internal audit, as a part of the comprehensive internal financial control system, is stipulated by the Law on public internal financial control system.

In the context of this criterion it is also important to ensure the monitoring of the implementation from the project level up to the programme as a whole. On the basis of the monitoring, the evaluation is performed on whether all activities were carried out legally, in accordance with procedures prescribed, and whether the objectives were attained. In compliance with the above mentioned requirement in the system of EU pre-accession assistance

programmes, each step in the management of a project is precisely defined, while the Monitoring Committee is obligatorily designated in order to monitor the implementation. The Committee convenes for the purpose of monitoring the progress of the project at least twice annually. At the level of priorities and measures as well as a programme in the overall, the committees are also formed for the purpose of monitoring the progress at these higher levels of the programme structure. For the purpose of evaluations, i.e. evaluating the progress, external experts are engaged in order to perform evaluations on the basis of precisely defined economic and financial indicators of the programme success.

2.1.5. Information and communication system

Information and communication system requires clearly defined information enabling the management and control of businesses.

In the framework of this criterion within pre-accession assistance programmes the following are crucial to be fulfilled:

- *regular coordinating meetings* for all institutions involved in the implementation of a certain programme;
- *regular reporting* on the status of the planned activities per programmes and per projects;
- *reporting on projects' implementation* in relation to the implementation plan laid down (implementation of procurement plans, analysis of deficiencies and evidence on activities undertaken aiming to improve the quality of work, contract implementation or comparison of costs in relation to results);
- regular reporting from all employees on the effectiveness and efficiency of internal controls so that they are informed on shortcomings identified and improvements needed.

In the system of pre-accession programmes several levels of audits perform checks on the system before the European Commission awards a work permit, i.e. evaluates that the system satisfies all described criteria laid down. Taking into consideration that, so far, we have received work permission for CARDS, PHARE, ISPA and SAPARD programmes, as well as in IPA components I – IV, it may be concluded that in the operational practice of state administration the rules of internal financial control system are being largely and more significantly applied.

The above described content of the accreditation criteria indicates that all institutions involved in the implementation of pre-accession assistance programmes had to acquire new knowledge and manners of work, and to *implement in practice certain activities which have not been adopted yet in*

other parts of state administration. This significant progress which was introduced into parts of financial management system dealing with EU programmes is extremely important for a faster and a higher quality development of the system in the overall.

3. Changes in budgetary processes

Basic budgetary processes are as follows: planning, executing, accounting monitoring, supervision and reporting. These processes are applied both in the budget system and in the system of the implementation of EU pre-accession programmes, but also afterwards during the implementation of European Funds. By the adoption of the new Budget Act⁽⁹⁾ some important novelties were introduced in the processes of planning and executing, which enable easier implementation of the public internal financial control system, *the main task of which are monitoring and evaluating whether objectives which were set are being achieved in a legal, regular, efficient and effective way.*

3.1. Planning

The planning process of EU Funds is based on the following: programmes and application of the chronological principle. Since planning is a programmatical event, *only and exclusively well set and defined programmes are being financed.* Planning process falls under responsibility of line ministries and is coordinated by the Central Office for Development Strategy and Coordination of EU Funds (hereinafter: the CODEF).

The planning encompasses the proposal and *adoption of strategies for particular areas*, and in accordance with priorities of certain areas it includes proposal and preparation of projects to be financed from pre-accession programmes.

At all programme levels⁽¹⁰⁾ *objectives and indicators of success in attaining objectives are defined, which is monitored in detail afterwards during the implementation.*

The CODEF will, for the first time, prepare National Strategic Reference Framework for operational programmes 2011-2013. This is a strategic document brought by all member states for each financial perspective of the European Union⁽¹¹⁾.

Precisely because of this strategic and multi-annual approach in the European budget it was important *to improve the planning process by introducing strategic and multi-annual budgetary framework.*

This was done in the Republic of Croatia through adoption of the new Budget Act:

- *The commitment of the strategic planning and of drawing up a strategy covering the period of three years for government's programmes has been introduced.* This was performed so that strategic priorities and objectives of government's policy could directly influence the allocation of funds in the framework of the budget. Moreover, the objective is to connect the National Strategic Reference Framework (NSRF) with the strategy for a three-year-long period since only in this way the sustainability of the implementation of the first and the second document may be ensured, taking into consideration that all priorities referred to in the NSRF are supposed to be co-financed by budgetary funds.
- *Multi-annual dimension of the budget is ensured* by the provision which defines that the Croatian Parliament, i.e. the representative body (at the local level), adopts the budget for one budgetary year, but also the projection for the following two years.

3.2. Execution

After tender procedure and contracting of activities forecasted by a project, the financial implementation commences together with the execution of payment. Contrary to the budget in which, according to the Budget Act, advance payments are possible only exceptionally and in agreement with the Minister of Finance, in the system of EU pre-accession programmes and depending on the type of a contract, the specific percentage of the overall amount envisaged by the contract is paid to a supplier immediately upon the signing of the contract. The subsequent payments to the suppliers are executed in compliance with costs declared. Prior to payment stage, again depending on the type of a contract, the report on the implementation of a project is also submitted enabling the monitoring of and supervision over the implementation. Moreover, the last payment is not executed prior to final report on the successfulness of the project implementation and results achieved in relation to objectives set. The above mentioned procedures indicate that *the focus on results and on the successfulness of work is not reflected only in the way of planning and selection of projects, but is reflected through the whole implementation cycle – from contracting to paying.*

In the planning process the overall amounts, to be allocated for an individual programme/measure or priority, are defined. The funds distributed per projects within a priority may be reallocated without special procedures of European Commission approvals. The amounts are not planned according to types of expenditures per projects. It is only determined which types of

expenditures are eligible to be financed, and which are not. Therefore, the implementation of projects, priorities, measures or programmes is completely flexible in respect of economic classification (i.e. individual types of expenditures to be financed).

In the process of budget execution this level of flexibility has not been reached, however improvements were introduced even in this part by the new Budget Act as follows:

- *more flexible budget execution and focussing on the outcomes of work is ensured* through the adoption of budget at the higher level of economic classification, i.e. at the level of a subgroup (the third level) in relation to the, so far, fourth level of a section. Projections shall be adopted at the second level of the economic classification.

In the framework of negotiations, in Chapter 22 – Regional policy and coordination of structural elements, apart from introducing strategic planning and the possibility of multi-annual planning, as well as more flexible budget execution, it is also required that the *funds for capital projects could be transferred from one budget year to another*. This was stipulated by the new Budget Act as Article 55, Section 3 reads:

- The possibility is introduced of transferring activities and projects for which funds have been ensured in the budget but have not been realised in the year concerned to the subsequent year. Namely, accounts for certain activities and projects received at the end of a year, the payment of which arrives in the subsequent year are drawn from the budget of the subsequent fiscal year. Therefore, it is important to enable their payment in the subsequent year although the funds have been ensured in the year concerned. Due to public procurement procedures being late or repeated, projects, particularly capital projects unpredictably move from one year to another. The accounts, relating to a concrete project which was envisaged in the user's plan to be completed by the end of a fiscal year, in which the funds were ensured, but it was completed at the beginning of the subsequent year, cannot be paid until the budget revision of the subsequent fiscal year. These examples indicate that it was very important to regulate by the Act the possibility for the transfer of activities and projects from one year to another without needs for amending the budget.

All the above described indicates the fact that *in the Republic of Croatia significant changes have been started in the process of acceding to the European Union regarding the system of managing public finance*. The utmost objective of the changes comprises the improvement of work quality, the efficiency and the effectiveness in the management of public funds.

4. Conclusion

As a candidate country for the membership in the European Union the Republic of Croatia is the beneficiary of EU pre-accession programmes (firstly the following programmes: CARDS, PHARE, ISPA and SAPARD, and afterwards the new IPA programme), while when it becomes the member of the EU the Republic of Croatia will have the possibility to use European funds becoming a part of the implementation of European Cohesion policy.

The objectives of the Cohesion policy include equal and sustainable development of all European regions (NUTS II level – statistical region), and through its implementation in member countries the following investments are financed: transport, environmental protection, power, regional competitiveness (i.e. enhancing business and society infrastructure, strengthening the economy), human resource development aiming to increase employment and employment opportunities of the labour force.

The above mentioned areas, encompassed by the Cohesion policy, are part of the special interest in each country, and accordingly in the Republic of Croatia they have been recognized as development drives from the local to the central level in the country.

The coordination of strategic priorities at the local, regional and national level as well as their harmonisation with the objectives of the Cohesion policy presents one of the key challenges.

For this reason primarily, the new Budget Act which entered into force as of 1st January 2009 introduced the strategic planning and a three-year-budget framework. For the first time the Strategy of the Governmental programmes was adopted for the period 2010 – 2012, clearly highlighting strategic priorities related to the budget, objectives were set and manners of measuring the successfulness of accomplishing the objectives were defined. This strategic consideration at the national level in the context of the state budget constitutes the basis for the adoption of strategic documents and connection of national priorities with the objectives of the EU Cohesion policy.

The adjustment of the financial and budget regulations to the frameworks and practices of the European Union is one of the key reforms and together with the institutional and legislative changes and strengthening of administrative capacities present the basis for high quality integration into the EU Cohesion policy.

Notes

- (1) See Matei, L., 2009, Romanian Public Management Reform, Administration and Public Services, Volume 1, Economica Publishing House, Bucharest, Romania, page 77-78 European conditionality, Available on SSRN: <http://ssrn.com/abstract=1469995>.
- (2) Europeanization should not be confused with other concepts, such as convergence, harmonization, integration and policy making. Europeanization is a process, while convergence represents its consequence. Also, Europeanization should not be confused with the harmonisation process, which reduces the diversity of regulations, offering a certain action model. Contrary to harmonisation, Europeanization provides the idea of open diversity. The result of Europeanization may be diversity of regulations, increased competition or its distortions. See Matei, A., Matei, L., 2009, Globalization and Europeanization. A Projection on a European Model of Public Administration, Available on SSRN: <http://ssrn.com/abstract=1310129>; Matei, L., 2009, Romanian Public Management Reform, Volume 2, Civil Service, Economica Publishing House, Bucharest, Romania, Available on SSRN: <http://ssrn.com/abstract=1470028>.
- (3) A unified Instrument for Pre-Accession Assistance (IPA) replacing CARDS, PHARE, ISPA and SAPARD pre-accession programmes was introduced in the financial perspective 2007-2013.
- (4) Annex to the Commission Regulation No. 718/2007 of June 2007 implementing Council Regulation No 1085/2006 establishing an instrument for pre-accession assistance (IPA).
- (5) Official Gazette No. 141/2006.
- (6) In September 2004 the Government of the Republic of Croatia adopted the first PIFC Strategy. In the same year the Memorandum of understanding on administrative cooperation between the Ministry of Finance and the EC Directorate General for Budget was concluded.
- (7) By the second quarter of 2008 the reports were sent to the National Fund, after that and in accordance with amendments of procedures, the reports are sent to the Department for Combating Irregularities and Fraud. The Department reports to the NAO on the detected irregularities. The Department also reports to the European Commission – OLAF and respective DGs on behalf of the NAO.
- (8) The system for combating fraud and corruption.
- (9) New Budget Act was published in the summer of 2008 (OG No. 87/2008), and entered into force on 1 January 2009.
- (10) Programmes consist of measures, measures consist of priorities and priorities consist of projects.
- (11) Financial Perspective lasts for seven years, and the implementation of the Financial Perspective 2007-2013 is ongoing.

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Fiscal Sustainability and Social Cohesion. Common and Specific in EU Sub-models⁽¹⁾

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Abstract. *The European social model is characterized by a high heterogeneity degree, the member countries recording significant differences between the national redistribution systems. According to the existing gaps regarding the decreases of the poverty, the participation to the labour market and the protection against the labour market risks, we can identify five submodels within EU, the Northern one being the best adjusted to the structure of the European social model which has been modernized through the Lisbon strategy. Even though the finality of EU is represented by providing the social cohesion (the decrease of the poverty rate and of the income inequality), the progresses recorded during the period between 2000 and 2008 were quite low due to the evolutions of the Southern, Anglo-Saxon, Baltic and Romanian submodels. Within this study, we have explained why the increase of the state's resources, of the welfare does not constitute a necessary and sufficient condition for the consolidation of the social cohesion within the European Union. On the contrary, the increase of the redistributed financial resources is able to generate sustainability problems in the budget deficit when the economic activity goes through an economic recession period.*

Keywords: convergence, integration, european model, fiscal sustainability.

JEL Codes: E62, I38.

REL Codes: 8K, 20F.

By defining the types of welfare states, Esping Andersen (1990) justified the only existence of three variants of capitalist systems: the social-democrat system (which includes the Northern countries), the conservative system (the continental European countries) and the liberal welfare system, including the Anglo-Saxon countries. Besides the three submodels, there are two more models within EU – the Southern or Mediterranean submodel, which includes the Southern countries, and the „catching-up” submodel, which includes the ex-communist new member states⁽²⁾.

Characterization of the economic and social submodels

Among the five submodels within the European Union, the Northern submodel is the most performant in achieving the objectives assumed through the Lisbon Strategy, as it has generated both macroeconomic efficiency, and also social equality.

The Northern (Scandinavian) submodel includes Denmark, Finland, Sweden and Netherlands, and it is characterized by a high redistribution degree, by promoting the social inclusion, the universality of the social assistance, of the social dialogue and of the cooperations between the social partners and the Government. These economies are among the most competitive European economies, although they provide economic and social cohesion to the citizens; the performances of the countries included within this submodel are explained by the elimination of certain trade-offs which exist between the economy's functioning and the social effects (Figure 1).

The other four economy submodels are characterized by the existence of at least one of the three trade-offs presented in Figure 1.

The Anglo-Saxon submodel includes Great Britain and Ireland and it constitutes a mirror of a liberal approach for the welfare system in which the social assistance is limited and in which the private insurances of the individuals' risks are encouraged (this means that the transfer of social responsibility is made from the state towards the individual, such as in the USA). The labour market is not regularized, and the responsibility of looking for a job belongs to the individuals (the budget expenses for the active policies which exist on the labour market are low). In contrast with the Great Britain, the state's intervention is higher in Ireland, along with the transformation of this economy from a less developed country into the second developed economy in EU. With reference to the three trade-offs, the Anglo-Saxon countries apply a quite decreased taxation (this fact resulting in quite low labour costs) and quite low unemployment benefits as a share in the wage, which are paid for a shorter period of time. That is the reason why the employment degree is close to that existing in the Northern countries and the long-term unemployment is the

lowest in the EU. The third trade-off only (the one referring to efficiency and equality) is characteristic to this submodel, under the terms in which the economic growth involves an increased inequality of wages and incomes in the society.

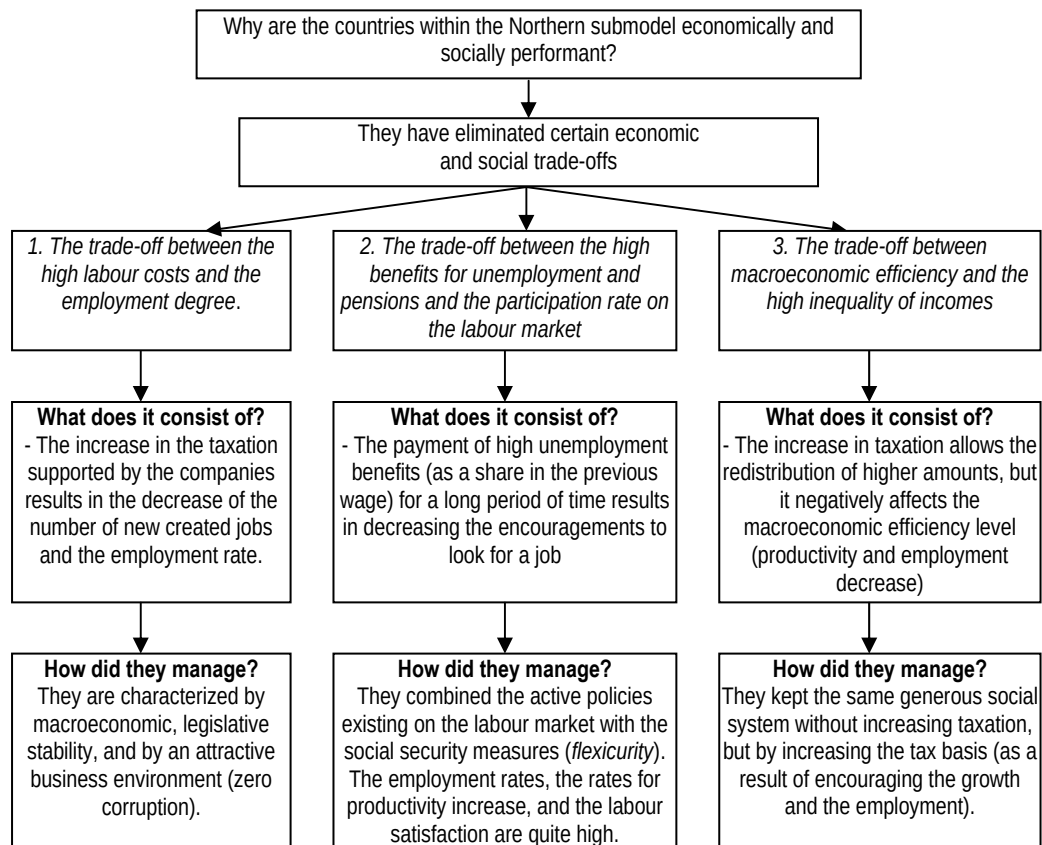


Figure 1. The performances of the Northern submodel

The *continental submodel* includes France, Germany, Austria, Belgium and Luxembourg. Within this submodel, employment constitutes the basis of the social transfers, and the paid benefits are lower than those given in the Northern submodel, depending on the level of the previously obtained income. As for the functioning of the labour market, it is regularized, without encouraging the labourers' flexibility, and the wage negotiations are centralized within it. The economic system's ability to eliminate the trade-offs included in Figure 1 is quite decreased for the countries belonging to the continental submodel. Thus, taxation is quite increased (if compared to the Anglo-Saxon countries), and this fact induced a lower capacity to create jobs in the private

sector (especially in that of the services). Moreover, the benefits received by the unemployed and by the pensioners discourage them in looking for a job and in extending the participation to the labour market. In the absence of active policies on the labour market, these economies record high unemployment rates, the poorly qualified labourers, the young and the women constituting categories which are less integrated on the labour market. With reference to the trade-off between efficiency and equality, the countries within this submodel are characterized by a lower incomes inequality (if compared to those belonging to the Anglo-Saxon submodel), but this is not the result of the increase in employment and productivity, as in the Northern countries, but of the previous increase of the expenses for the social protection.

The Southern submodel includes Greece, Italy, Spain, Portugal, Malta and Cyprus. The state's role is residual, being limited to paying fragmentary social benefits, and the social expenses are directed towards the aged population and towards certain occupational groups, such as the employees in industry. The labour market is highly segmented and regularized, and the wage negotiations are centralized. Within this submodel, the state's responsibilities are taken over by the family, to a certain extent, and the family's role is both social and also productive (creating family businesses). From the point of view of the three trade-offs, the Southern economies have the characteristics of the Anglo-Saxon countries (quite low social expenses, low benefits for the unemployed), but they do not have their capacities to generate an increase of the employment rate, under the terms of a regularized labour market, especially for the men labourers. The labour force is less flexible, as in the continental submodel, this aspect involving the constancy of an increased rate of unemployment on a long-term, especially among the young people. Under the terms of a lower redistributive state and of an economic system which is incapable to significantly increase the employment rate, the inequalities between incomes are the highest within the European Union. Within countries such as Italy, Portugal and Spain, the differences between incomes are also explained by the existence of high regional gaps.

The catching-up submodel (the Eastern and Central Europe, ECE) includes the Czech Republic, Slovakia, Slovenia, Hungary, Poland, Estonia, Lithuania, Latvia, Romania and Bulgaria. Although all these economies passed through a process of transition towards a market economy, there are still significant differences with reference to the organization of the national welfare systems. Some countries, such as Hungary and Slovenia, have chosen the increase of the expenses for the social protection, while the others, such as the Baltic States, have based on keeping them low and on encouraging the recovery process for the development gaps by promoting a taxation which is close to that

in the Anglo-Saxon submodel. However, the general analysis of the submodel suggests the existence of regularized labour markets, of a still less developed social dialogue institution and of a low social security level. Analyzing the catching-up submodel from the point of view of the three trade-offs, we can establish that it recorded high rates of economic growth, this aspect being characteristic to less developed economies, which, however, induced an income polarization, such as in the Anglo-Saxon submodel. The employment rates are the highest in the case of Slovenia and Czech Republic, its most significant increases being recorded in Bulgaria and in the Baltic States, where employment is close to the levels of the continental submodel. Within the catching-up submodel, we can identify two groups of countries, one of them including Visegrad and Slovenia, while the other one includes the economies which implemented the Unique Taxation Quota – the Baltic States, Romania and Bulgaria.

For a synthesis of the gaps between the redistribution systems of the five submodels, we have made a comparison between them, which is based on the presence or absence of the three trade-offs and on their capacity to eliminate them (Table 1).

Table 1

The heterogeneousness of the economy submodels within EU

Submodel/Trade-off	Northern	Anglo-Saxon	Continental	Southern	Catching-up
High labour cost and employment degree	Eliminated - high employment degree	Non-existent - lower costs; - high employment degree	Not eliminated - quite low employment degree	Non-existent - lower costs and employment degree	Non-existent - lower costs and employment degree
High benefits for unemployment and pensions and high employment degree	Eliminated - high employment degree among the young and the old	Non-existent - the benefits for unemployment are low; - high share of the private pensions	Not eliminated - low employment degree among the young and the old	Non-existent - low social protection	Non-existent - low social protection
Macroeconomic efficiency and income inequality	Eliminated - efficiency and equality	Not eliminated - efficiency without equality	Not eliminated - equality without efficiency	Not eliminated - nor efficiency or equality	Not eliminated - increase of efficiency, but without social equality

The three trade-offs are characteristic to the welfare systems of the Northern and continental submodels, but the first one has proved the capacity to eliminate them by means of promoted reforms, while the second one is less performant. The Northern submodel turned gradually into a submodel which is closer to the Anglo-Saxon one, by passing from welfare to workfare, which

means from the state's responsibility to provide social security to the individual's responsibility for his own security against risks. However, the Northern submodel is extremely different from the EU liberal countries from the point of view of its social performances. Based on the comparison made in Table 1 we can reach the conclusion that *the features of the modernized European social model are largely characteristic to the Northern and Anglo-Saxon countries*. The result is that the homogeneity of the European model is performed with difficulty, as the transfer of the common values which are specific to these two submodels towards the other three can encounter an institutional, social and even cultural barrier.

The structure of the EU redistribution systems

The increase in the welfare state is influenced by the shares of the budget income and of the budget expenses in the GDP, and its sustainability is given by the existence of a long-term balance of the budget balance, which is necessary to avoid the increase of the public debt. Table 2 presents a hierarchy of the European submodels according to their disposition for redistribution, by using the values recorded by them during 1995, 2000 and 2008. The first year corresponds to the starting of the nominal convergence process performed by 12 of the EU member states. 2000 is the year when the Lisbon Strategy was adopted, which settled the reform of the national economic and social systems. 2008 is the year when the first effects of the financial crisis upon the budgets of the European countries were encountered.

Table 2

The evolution of the budget incomes and expenses within the European submodels

	Budget incomes (%GDP)	Budget expenses (%GDP)	Budget incomes (%GDP)	Budget expenses (%GDP)	Budget incomes (%GDP)	Budget expenses (%GDP)
Submodels/Years	1995	1995	2000	2000	2008	2008
Northern S.	52.66 (I)	59.86 (I)	52.44 (I)	49.34 (I)	51.22 (I)	48.95 (I)
Continental S.	47.08 (II)	54.50 (II)	48.28 (II)	48.24 (II)	46.51 (II)	47.96 (II)
EU-27	45.20	52.40	45.40	45.20	44.50	46.80
Anglo-Saxon S.	38.09 (VII)	43.66 (VI)	40.05 (IV)	38.45 (VIII)	41.58 (IV)	47.13 (III)
Southern S.	41.53 (V)	48.55 (IV)	42.26 (III)	43.58 (III)	42.09 (III)	45.15 (IV)
ECE S.	41.76 (IV)	46.90 (V)	38.31 (VI)	42.15 (V)	38.86 (VI)	42.09 (VI)
Visegrad Gr.	43.75 (III)	50.16 (III)	39.26 (V)	43.23 (IV)	40.31(V)	43.31(V)
Baltic States + Bulgaria Gr.	38.52 (VI)	39.12 (VII)	37.56 (VII)	39.31(VI)	36.48 (VII)	38.35 (VIII)
Romania	33.80 (VIII)	35.90 (VIII)	33.80 (VIII)	38.50 (VII)	33.10 (VIII)	38.50 (VII)

Note: the Roman figures in the brackets correspond to the descending hierarchy of the submodels, from the most redistributive ones to those which are less redistributive in the GDP.

Source: Eurostat (2009).

The most redistributive submodels are the Northern and the continental ones, the second decisively influencing the communitarian average. Compared to 1995, the Northern countries maintained approximately the same level of the budget incomes as a share in the GDP, but they have recorded a 10% decrease in the budget expenses, and this allowed them to obtain a 2.27% average budget surplus of the GDP. Among the Northern economies, Finland and Sweden have promoted the greatest adjustments of the welfare state, the first one decreasing the budget expenses by 13% of the GDP, and the second one by 12%. During the period between 1995 and 2008, the budgets of the two economies turned from a 6% budget deficit into an approximate 2% surplus of the GDP, for Sweden, respectively 4% of the GDP for Finland. These transformations are the result of promoting the reforms which are specific to flexicurity and to the adjustment to an innovative economy, both factors generating the economic growth, the increase of the employment degree and the relative decrease in the dependence of economy and society on the state's intervention.

The countries within the continental submodel recorded the same tendency to decrease the public expenses, but the quite low rates of economic growth allowed them to achieve budget surpluses only in 2000. With reference to their extent, the transformations were different within the economies belonging to this submodel: on the one hand, Germany and Austria recorded a decrease of 11%, respectively 8% in the state's expenses, while Belgium and France recorded only an approximate 2% decrease. Actually, in 2008, France was the EU economy which recorded the greatest share of the public expenses in the GDP, and this fact resulted in a budget deficit of 3.6% of the GDP. In 2008, which was a year of financial and economic crisis, the most affected was the Anglo-Saxon submodel, as Great Britain and Ireland are the European economies mostly depending on USA. Within this framework, the governments of the two countries intervened in order to support the financial sector and to encourage the real economy, and this fact generated the approximate 5% increase of the public expenses in Ireland, and the 3.7% increase in the United Kingdom, during 2008, compared to 2007.

The Southern submodel and that of the Eastern and Central European (ECE) countries are those which record the highest dispersion among the sizes of the welfare states. In Italy and Hungary, the budget expenses exceeded the EU-27 average by approximately 2% in 2008, and in Slovakia and Lithuania, the state's intervention in economy was 10% lower than the communitarian average. As a matter of fact, the state budgets of the two submodels were adverse during the analyzed period. If the state intervened in the Southern countries in order to encourage the real GDP under the terms of increase rates

below 2%, in the new member states, the state's expenses aimed to modernize these economies subsequent to 2000, the average increase rates exceeding 5% during the period between 2001 and 2008.

Within the ECE submodel, we can identify two groups of countries, according to the role of the national redistribution system. On the one hand *the countries within the Visegrad group were convergent with the economies within the continental submodel during the first transition years, and, subsequent to that, they came closer to the direction which is specific to the Southern countries. The taxation decrease, which was promoted within these economies, generated the decrease of the budget returns in the first stage, and, afterwards, the decrease of the state's expenses.* On the other hand, *during the analyzed period, the Baltic States, together with Romania and Bulgaria, were characterized by a residual role of the state, similar to the one existing in the Anglo-Saxon submodel.* The increase strategy based on the lowest taxes in EU, and this resulted in the decrease of the budget returns within all five economies, during 2008, compared to 1995. Except Romania, the other four economies achieved budget surpluses during the period between 2002 and 2007, under the terms of an approximately 7% average annual increase rate. When these economies were functioning on the basis of the private capital inflows, the increase of the state's intervention in economy was not necessary. But, once the financial crisis has decreased these inflows, these economies should promote measures for increasing the public expenses for investments, in order to bring the economic recession to an end.

Among the public expenses, the state's social expenses are the most important, these ones including the expenses for the pensions, for health care, for the transfers towards families and children, the expenses for unemployment and those for preventing the social exclusion. Compared to 1995, the part distributed for social expenses increased by 5 percents (up to 57% in 2007), as a result of the pressures within EU with reference to ageing of the population and to the constancy of a high unemployment level. In 2006, among the EU countries, the Netherlands, Germany and Belgium were characterized by a developed welfare state, under the terms in which more than 60% of the expenses are distributed for the social component. Instead, the governments in the Baltic States and in Romania distributed less than 40% of the budget expenses for the social programs.

The five economy submodels are significantly different, both with reference to the volume of resources distributed by economies for social protection, and also regarding the distribution of these amounts, the comparison between them being included in Table 3. The difference may be due to the

demographic evolution, to the economic development degree, to economy's exposure to the external globalization shock and to the internal shock of the population's ageing. Among the social policy domains, those referring to pensions and to unemployment have recorded severe transformations for the purpose of decreasing the population's dependence on the social insurance budget, the main reform measures aiming to decrease the quantum of the unemployment benefit, the period for paying it and to increase the pension age. As a matter of fact, in 2006, the expenses for pensions and for unemployment represented half of the budget which was spent for the social policy within EU-27. Compared to 1995, the expenses for health care increased from 8.1% to 9.5 % of the GDP, and those for unemployment decreased, as a result of the improvement in the functioning of the labour market during the period between 2000 and 2006.

Table 3

**The structure of the social expenses
within the European submodels (2006)**

	Social expenses	Expenses for pensions	Expenses for health care	Expenses for families and children	Expenses for unemployment	Expenses for preventing the social exclusion
Northern S.	29.17 (I)	11.21 (III)	11.11 (I)	2.43 (II)	1.66 (II)	1.52 (II)
Continental S.	27.74 (II)	11.73 (II)	9.36 (III)	2.66 (I)	1.70 (I)	0.88 (III)
Anglo-Saxon S.	25.85 (III)	11.13 (IV)	10.33 (II)	1.66 (III)	0.65 (IV)	1.53 (I)
Southern S.	24.19 (IV)	12.31 (I)	8.23 (IV)	1.23 (VI)	1.37 (III)	0.32 (VI)
ECE S.	17.50 (VI)	8.83 (VI)	6.16 (VI)	1.24 (IV)	0.52 (VI)	0.37 (V)
Visegrad Gr.	19.43 (V)	10.15 (V)	6.52 (V)	1.27 (V)	0.61 (V)	0.44 (IV)
Baltic States + Bulgaria Gr.	13.91 (VIII)	6.73 (VII)	5.06 (VIII)	1.15 (VIII)	0.27 (VIII)	0.30 (VII)
Romania	14.00 (VII)	6.20 (VIII)	5.80 (VII)	1.20 (VII)	0.40 (VII)	0.20 (VIII)
EU-27	26.9	11.9	9.5	2.1	1.4	0.9

Note: the Roman figures in the brackets correspond to the descending hierarchy of the submodels, from the most redistributive ones to those which are less redistributive in the GDP. The difference between the total of the social expenses and the sum of the five components included in the table refers to the administrative expenses.

Source: Eurostat (2009).

Among the European submodels, the Northern one distributes approximately 29% of the GDP for the social policy, and the percentage corresponding to the continental one is 27.74% of the GDP. The most generous welfare states are France, Belgium (over 31% of the GDP) and Sweden with 30.7% of the GDP. Compared to 1995, the Scandinavian and the continental

economies kept the share of the social expenses in the GDP quite constant. As for the countries belonging to the Anglo-Saxon submodel, a 2% increase has been recorded for the amounts distributed for the social policy during the last ten years, the most part of this increase being reflected in the financial resources distributed for the health care (10.33% of the GDP in 2006). Within these economies, the labour markets are flexible, and the unemployment benefits are more decreased, and this fact generated the extension of the active life and the decrease in the rate of unemployment on a long term. That is the reason why the Anglo-Saxon submodel is found on the last place among the 15 member countries of EU with reference to the expenses for pensions and for unemployment.

The continental and the Southern countries record the greatest share of the social expenses for the aged persons, and this fact results in a poor participation of these individuals on the labour market, and also in the anticipated retirement within these countries. As for the Southern countries, there are significant gaps between the pension schemes, which are generous for the public sector labourers and for the full-time labourers from the big private enterprises. Moreover, the young persons, who attend certain studies or who are looking for a job, receive a very low support from the state, as in the case of the families with little children. Within this submodel, Italy pays 60% of the social budget for pensions, and Greece pays 50%, the average being 51.5%. The amounts distributed for health care represent the second component of the social expenses (34% of the total), but there is a lower dispersion between the member countries, if compared to the budget for pensions.

The submodel of the new member countries is the only one which was characterized by a decrease in the budget distributed for the social policy during the period between 2000 and 2006. As a matter of fact, there is a pronounced divergence between the financial resources distributed by the old EU member countries and the new member countries, the average of the submodel being approximately 9.5% lower than the EU-27 average. The difference is mostly explained by the more decreased amounts distributed for pensions and for health care. Within this submodel, the group which includes the economies with a higher level of economic development (the Visegrad countries) distributes a greater share of the GDP for the social protection; thus, Slovenia and Hungary have a social budget of approximately 22.5%, and this fact makes them come closer to the countries from the Southern submodel. Poland, which is the economy with the greatest share within the ECE submodel, distributes 60% of the budget of 19.2% of the GDP for pensions, within the framework of the existence of a quite aged population in the rural area. The EU economies which

have introduced the unique taxation quota system (the Baltic States, Slovakia, Romania and Bulgaria) have the most decreased social budgets (below 16% of the GDP), the minimum percentage being 12.2%, in Latvia. The taxation strategy promoted within these economies has had the purpose of supporting the economic growth process, the increase in the employment degree and the decrease in the share of the underground economy. The simultaneous achievement of the three objectives would have resulted in the increase of the budget returns and in distributing higher amounts also for the social protection; otherwise, any measure taken for the increase of these expenses would have generated additional deficits of the social insurance budget.

In conclusion, there is a significant gap of the ECE submodel if compared to the EU-27 average and also with reference to the submodels in which the state's role is smaller (the Anglo-Saxon and the Southern submodels); moreover, a pronounced divergence is recorded in the new member countries between the Visegrad Group, on the one hand, and the Baltic States, Romania and Bulgaria, on the other hand. The hierarchy of the European submodels also relieves a direct correlation between the development level and the share of the GDP which is spent for the social protection. The result is that countries such as Romania and Bulgaria will be able to significantly increase the social budget only when the incomes gap will be decreased in comparison with EU-27.

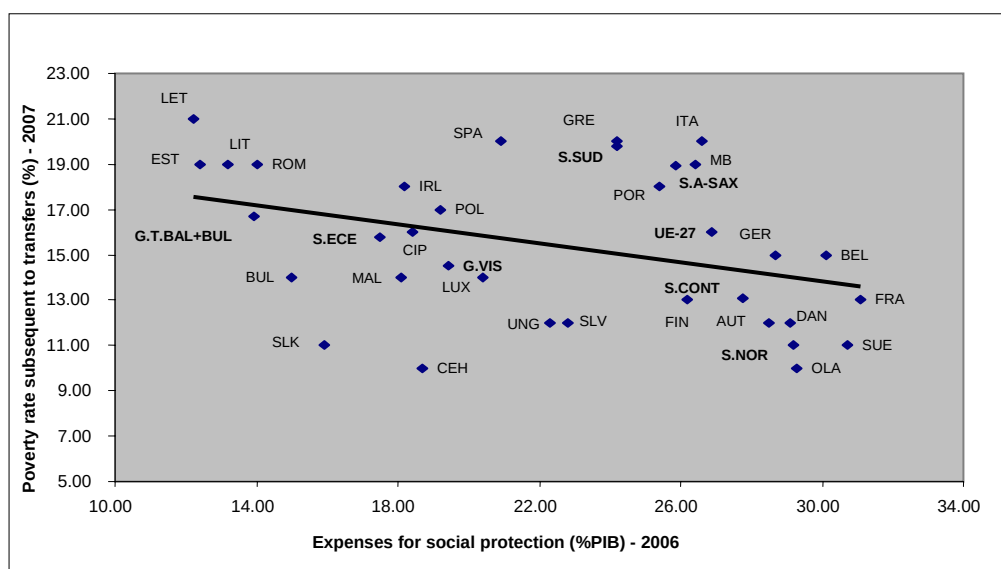
The impact of the redistribution systems upon the social inequalities

One of the basic characteristics of the European social model, assumed by the Lisbon Strategy, is constituted by the social cohesion, which supposes the decrease in the number of the individuals who are affected by poverty, in the inequality of incomes distribution and in the social exclusion. According to Table 3, the countries which redistribute the most through the social policy (the continental and the Southern countries) should record the lowest rate of poverty and the lowest level of inequality in incomes redistribution within the society. Moreover, the submodel of the new member countries would be the most inegalitarian, from the social point of view. *The social policy's capacity to decrease the poverty risk and also the level reached by the poverty rate subsequently to the redistribution constitutes proofs of the efficiency in distributing the social expenses in economy.*

The rate of the poverty risk represents the share of the persons whose available income is below the poverty threshold, which is considered to be equal to 60% of the national income median⁽³⁾. In 2007, previous to the social transfers, EU-27 recorded a poverty rate of 26%, and subsequently to the

redistribution, it was 16%, the difference being explained by the effect of the social policies promoted by the member states. Compared to 2000, the poverty rate previous to the redistribution increased by 3%, while the rate remained the same (16%) subsequently to the transfers. The result is that there have been no progresses in providing the communitarian social cohesion⁽⁴⁾. Among the EU member countries, Portugal and France recorded 3% decreases in the poverty rate (at the 60% threshold) in 2007, if compared to 2000, this rate being calculated subsequently to the transfers, but, in the case of the first economy, 18% of the individuals are below the poverty threshold. Instead, in Germany and Latvia, the share of the poor increased by 5%, the level in the second economy being the highest in EU. As for other member states, the variances of the poverty rate were maximum 2%, and Greece, Austria, the Great Britain and Bulgaria recorded no progress in social cohesion during the period between 2000 and 2007.

There should be an inverse correlation between the share of the social expenses in the GDP and the poverty rate subsequently to the social transfers (excluding the pensions) so that the welfare state could be efficient. This relation is obvious in the case of the Northern countries, which are characterized by a social system which is universal and generous from the point of view of the transfers. Moreover, the continental economies, which have a social budget which is 1.5% of the GDP lower than the Scandinavian countries, have a poverty rate which is 2% higher than them subsequently to the transfers. *According to the hierarchy of the submodels, made from the point of view of the redistribution, the ECE countries should have recorded a rate which is superior to that of the poverty, if compared to the Southern and Anglo-Saxon countries.* But, in Figure 2 we can notice that the poverty rate is approximately 3-4% inferior to them, as a result of the very low values recorded by the countries included in the Visegrad group, which, except Poland, have results which could be compared to those recorded by the Northern countries. The result is that the increase of the social expenses does not constitute a compulsory condition to decrease the percentage of the population which is below the poverty threshold. If an economy records a sustainable increase rate (such as the Visegrad countries during the period between 2002 and 2007), and its benefits are more equally distributed to the individuals, then an improvement of the social cohesion will be recorded, without the need to increase the redistributed budget resources.



Note: The last available data referring to the social expenses are from 2006, and those regarding the poverty rate are from 2007; the values from 2007 are very little different from those recorded in 2006, 19 of the member states recording the same percentage of the poor.

Source: Eurostat (2009).

Figure 2. *The relation between the social expenses and the poverty rate subsequent to transfers*

However, the correlation between economic growth and cohesion is not always validated, as the Baltic States, Romania and recorded an increase in inequalities, even though they obtained the highest rates of economic growth until 2008. A polarization of incomes has been encountered within the society, and this fact generated a quite stable constancy or even a slight increase (such as for Romania) in the percentage of those which are below the poverty threshold. Even though, implicitly, the income of the poorest increased during the periods of economic growth, they increased in a rhythm which is inferior to that of the incomes of the richest, and this fact has negatively affected the achievement of the social cohesion objective.

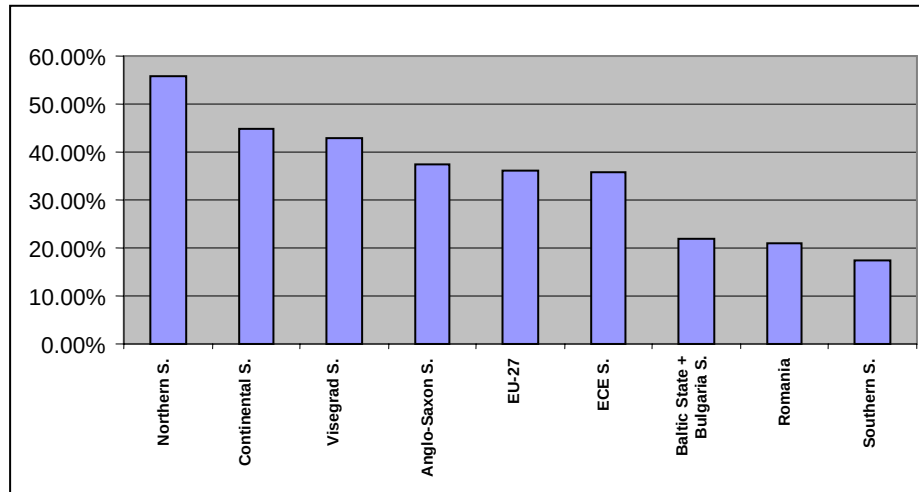
The comparison between the member states with reference to the percentage of those which are below the poverty threshold should only be interpreted relatively. Thus, in 2007 the maximum earning threshold for the poor was approximately 250 Euro in the Baltic States, Hungary, Poland and Slovakia, while in the Northern countries, Ireland, Luxembourg and Great Britain it was 900 Euro. With reference to the poverty threshold expressed in the purchasing power parity, it varied between a level of 280 Euro in the less

developed countries and 947 Euro in the EU developed economies. The result is that the living standard of the poor individuals in the richest economies is 3.4 times higher than that in the less developed economies.

According to the previous analysis, the Southern and the Anglo-Saxon submodels are characterized by the lowest efficiency level of the redistribution systems, as they maintain the highest percentage of population which is below the poverty threshold. Nevertheless, the efficiency of the social budget expenses must also be considered according to the capacity to decrease the poverty rate. Theoretically, the higher is the budget for providing social protection, the lower is the poverty rate. Otherwise, that redistribution system could be considered inefficient, because it distributes too low financial resources to those which are below the poverty threshold.

The percentage of the decrease in the poverty rate varies between the EU member countries, as the social institutional arrangement differ, and also the intensity of the relation between the social policy and the labour market is different. After examining the social transfers' ability to decrease the percentage of the individuals who are affected by poverty within the submodels, we have identified the following evolutions, which are also included in Figure 3:

- The Northern submodel is the only one which is characterized by more than a half decrease in the poverty rate (from 24.84%, to 11%), under the terms in which the social expenses (pensions excluded) record a percentage of 18% of the GDP.
- The social systems of the economies within the continental submodel decrease the poverty rate by 45%, this level being 2% superior to that existing in the Visegrad group; however, these economies' budget for the social protection is 6% lower than that recorded in the continental countries.
- The ECE submodel is the most socially performant, if compared to the Southern submodels, as it distributes the lowest amounts of money for the social policy and it decreases the percent of the poor to a greater extent.
- The less developed countries (the Baltic States, Romania, and Bulgaria) record the lowest poverty rate previous to the social measures, even though the percentage of the social expenses is two times lower than that recorded in the continental and Northern countries. The result is that the economy's functioning contributes to achieving the EU lowest percentage of the population which is below the poverty threshold, but the state's role in supporting them is low. This is the explanation for the decrease of only 20.83% in the poverty rate within Romania and of only 21.83% within the group including the countries which adopted the Monetary Council.



Note: On the ordinate, there is the percentage of decrease in the poverty rate as a result of the redistribution through social policy.

Source: Eurostat (2009).

Figure 3. *The redistribution systems' capacity to decrease the poverty rate (2007)*

Incomes distribution within EU

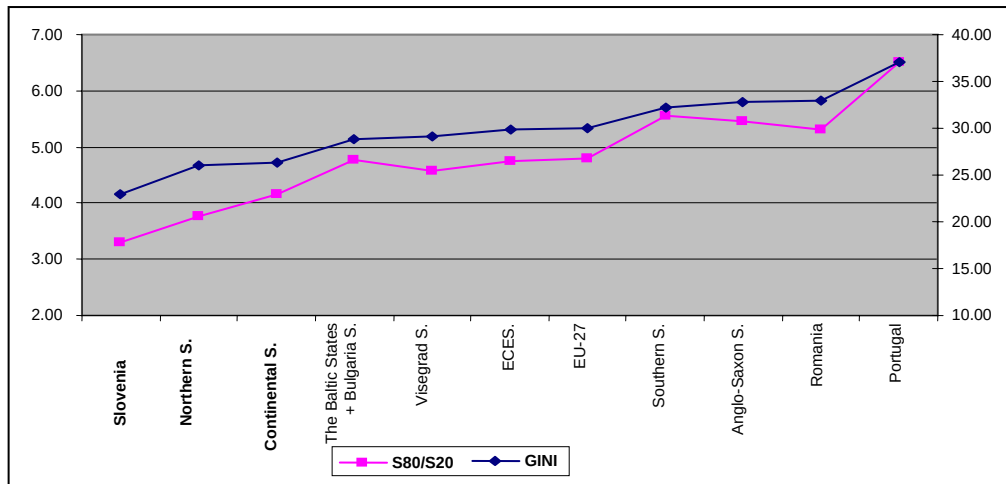
Theoretically, the more developed an economy, the more available resource to the social insurance budget for supporting the poorest. Moreover, the quite less developed economies are prone to record an increase in the internal social disparities, and the high rates of their economic growth especially generate a polarization of incomes. The transformations suffered by most of the economies within the ECE submodel have not validated the previous hypothesis, with reference to the fact that their inequalities have varied very little during the last seven years, compared to the previous period, although the rhythm of the real GDP growth has increased during the last five years.

The inverse correlation between the economic growth and the more unequal distribution of the incomes should only be recorded on a short-term, being mainly caused by the quite lower labour productivity redistributed in certain activity sectors. On a long-term, the policies for encouraging the economic growth (investments, professional reorientation, access to new technologies) will contribute to decreasing the structural unemployment (which

mainly affects those who are less qualified), thus generating a decrease in the incomes inequalities. Actually, the economic growth represents the most important condition in decreasing the social inequalities and of poverty rate. In the absence of this condition, the increase of the social transfers towards the under-privileged persons will immediately result in the increase of the social insurance budget deficit.

In order to emphasize the differences between the inequalities of the incomes distribution within the European submodels, we have used two indicators – the Gini coefficient and the ratio between the incomes of 20% of the richest citizens in a country and the incomes of 20% of the poorest persons (S80/S20)⁽⁵⁾. Compared to 2000, the inequalities within EU increased, contrary to the social cohesion objective included in the Lisbon Strategy. Thus, the ratio between the first 20% in terms of income level and the inferior 20% increased from 4.5 to 4.8, and the Gini coefficient increased by 1%. The EU weighted average has been decisively influenced by the increase in inequalities in Germany and Italy, two of the economies within which the labour market has been reformed by limiting the labourers' rights to receive unemployment benefit (the Hartz reform in Germany) and to have stable labour contract (the Biagi reform of the Italian labour market). These economies belong to the continental, respectively Southern submodels, which are characterized by a poor correlation between the social protection system and the labour market. In the absence of high labourers' flexibility and of the economy's capacity to create new jobs (aspects which have been encountered within the Northern economies), any reform will induce a decrease in income for a part of the labour force, and this effect will result in increasing the incomes inequality. As for Germany, the ratio S80/S20 increased by 42% in 2007, if compared to 2000, and the Gini coefficient decreased by 5%, reaching levels which are close to those existing within the Southern and the Anglo-Saxon submodels. Italy is characterized by an incomes inequality which is higher than the one existing in Germany, considering that the amounts distributed for the social transfers (excluding pensions) are quite lower; thus, the ration between the first 20% and the last 20% is 5.5, and the Gini coefficient increased by 3%, up to a value of 33.

When classifying the European submodels from the point of view of the incomes inequality, in Figure 4 we can notice that the hierarchy referring to the poverty risk subsequent to the transfers is mostly maintained the same.



Note: the values of the S80/S20 indicator are presented on the left axis, and those of the Gini coefficient are on the right axis.

Source: Eurostat (2009).

Figure 4. *The inequalities in the incomes distribution within the submodels (2009)*

The incomes inequality and the poverty risk increased within two of the Northern countries (Denmark and Finland), if compared to 2000, but they continue to be some of the most egalitarian economies, if we consider the distribution of the incomes to the individuals. The ECE submodel is more performant if we compare it to the Anglo-Saxon and Southern submodels, and, within it, as if we consider the social evolutions, there are economies which are comparable to the Northern economies, such as Slovenia (the most egalitarian EU economy), Hungary, the Czech Republic, Slovakia and Bulgaria. If Poland was excluded from the Visegrad group, this one being rather close to the Southern submodel, then the other four economies would record the lowest EU internal disparities of incomes. The evolution of these economies, of which GDP per capita is superior to the level of 65% of the EU average, is in contradiction with Kuznetz hypothesis, according to which the process of decrease in development gaps is accompanied by the increase in the social inequalities.

As for other new member countries, such as the Baltic States and Romania, this hypothesis is validated, in terms of the incomes which are more unequally distributed if compared to the economies included in the Southern and Anglo-Saxon submodels. Instead, the poorest EU economy – Bulgaria, is one of the most homogeneous economies in terms of income distribution, the

values of Gini coefficient and of the S80/S20 ratio being similar to those recorded by the Scandinavian economies. The explanation consists in the existence of low regional gaps, which also involve a decreased dispersion of the unemployment rate, of the employment degree and, finally, of the income level. As a matter of fact, among the new member countries, Bulgaria records the lowest ratio between the GDP per capita of the richest region and that of the poorest region.

Based on the indicators referring to the percentage of the persons who are below the poverty threshold and on those which measure the inequality of the incomes distribution, the conclusion is that EU-27 (as an average) deviated from the objective to provide social cohesion during the period between 2000 and 2007. The reason for this evolution refers to the existence of groups of individuals which are affected by the poverty risk to a greater extent, such as the children, the young, the women and the aged persons.

Conclusions

1. Among the five submodels within the European Union, the Northern submodel is the most performant in achieving the objectives assumed through the Lisbon Strategy, as it has generated both macroeconomic efficiency, and also social equality.
2. Based on the comparison we can reach the conclusion that the features of the modernized European social model are largely characteristic to the Northern and Anglo-Saxon countries.
3. There is a significant gap of the ECE submodel if compared to the EU-27 average and also with reference to the submodels in which the state's role is smaller (the Anglo-Saxon and the Southern submodels); moreover, a pronounced divergence is recorded in the new member countries between the Visegrad Group, on the one hand, and the Baltic States, Romania and Bulgaria, on the other hand. The hierarchy of the European submodels also relieves a direct correlation between the development level and the share of the GDP which is spent for the social protection.
4. The Southern and the Anglo-Saxon submodels are characterized by the lowest efficiency level of the redistribution systems, as they maintain the highest percentage of population which is below the poverty threshold. Nevertheless, the efficiency of the social budget expenses must also be considered according to the capacity to decrease the poverty rate.

Notes

- ⁽¹⁾ This article represents a partial dissemination of the exploratory research projects IDEAS, *Substantiating and Implementing an Econometric Model of Growth in the Efficiency of the Fiscal Policy with reference to Romania's Adherence to the Eurozone*, research contract no. 1766/2008, PNCD II, Program Ideas/ Exploring Research Projects program, 3 years, 3 stages, Project Manager Socol Cristian
- ⁽²⁾ There are a few contradictions in the economic literature with reference to the countries included within the five sub-models. Thus, Italy has features which belong both to the continental sub-model (especially the Northern Italy), and also to the Southern one. Moreover, the Netherlands can be found at the border between the continental and the Northern sub-models, and Luxembourg proves characteristics which belong both to the continental sub-model and to the Anglo-Saxon one. This work includes the classification made by Sapir (2005), according to which Italy has been included within the Southern sub-model, the Netherlands within the Northern one and Luxembourg within the continental sub-model.
- ⁽³⁾ The income median constitutes the statistic instrument which separates the distribution of the national income in two equal series. Obviously, in each country, the poverty rate is estimated according to its own poverty threshold, settled as the product between 60% and the median of the income distribution within that country. Thus, the individuals who are considered poor in a developed economy will not have the same status position in a less developed economy.
- ⁽⁴⁾ When settling a poverty threshold of 40% of the income median, the percentage of the EU citizens below this level is 5%, which means a third of the poor population which has been previously calculated to 60%. Moreover, 10% live in poverty at 50%, and 24% of the population live at a level which is higher than the initial one, i.e. 70%.
- ⁽⁵⁾ The Gini coefficient records values between 0 and 100, the first value corresponding to a perfect equality of incomes, and the last one to a perfect inequality, which means the case in which an individual (a group of individuals) possesses the entire income of the society. The other indicator is calculated as a ratio between the sum of the available incomes earned by the persons belonging to the first 20% (S80) and the sum of the incomes earned by the persons included in the inferior 20% of the distribution (S20). This fact emphasizes more exactly the tendency to polarize the incomes within the society.

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Does Trade Help to Explain Tourism Demand? The Case of Portugal

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Abstract. *The tourism industry has expanded in recent years due to internal and external environmental forces. These forces, income, trade, consumer price, and geographical distance are interconnected.*

Accounting for imperfect competition and increasing returns to scale, the new trade theory offers the explanation of dynamic gains from international trade. A large number of studies attempt to test the hypothesis that there is a link between trade and tourism. Most of the studies show that trade and tourism are positively correlated.

This paper specifies static and dynamic panel demand models for tourism in Portugal and estimates demand equations using tourist inflow data for the period 1995-2006. We find that bilateral trade, immigration, border, and geographical distance between Portugal and countries of origin are the main determinants of tourism to Portugal. The dynamic panel data approach indicates that trade, population, and income are more important determinants than relative price.

Keywords: trade; tourism demand; panel data; tourism forecasting; qualitative methods; Portugal.

JEL Code: M21.

REL Code: 14F.

Introduction

International trade researchers such as Gray (1982), Kulendran and Wilson (2000), Eliat and Einav (2004), and Phakdisoth and Kim (2007) typically explained tourism demand by income in tourist generating countries, price of tourist services, transport costs and promotional expenditures.

International trade is the most important player in economics. Little mention is made of tourism. Tourism is a significant source of export revenues for any country. It is important that policymakers and economists understand the factors affecting foreign tourism demand. In other words, this export commodity allows us to understand international economics. Poor quality of data has been a persistent problem in tourism studies. The majority of studies focus on travel flows among developed countries.

This paper argues and provides evidence that bilateral trade has a positive impact on tourism demand. Recent literature, including Phakdisoth and Kim (2007), Mervan and Payne (2007), and Vogt (2008), considers that tourism demand is a dynamic phenomenon.

Tourism suffers from a lack of recognition as a discrete subject area; consequently, understanding this dynamic phenomenon requires an exploration of the interactions between and among variables like groups or stakeholders, who possess the power to influence governmental and community action.

However, this study uses a static and dynamic panel data set between Portugal and the European Union (EU) for the period 1995-2006. In static panel data models, Pooled OLS, fixed effects (FE) and random effects have some problems, like serial correlation, heteroskedasticity and endogeneity of some explanatory variables. In dynamic panel data models, the GMM-SYS (Arellano, Bover, 1995, Blundell, Bond, 1998, 2000) estimator eliminates the unobserved specific effects through the equations in differences. The GMM-SYS estimator also controls for the endogeneity of explanatory variables.

We also introduced the Tobit model to forecast tourism demand. This methodology is important in forecasting policy implications.

Our panel data applies Newton's gravitational law. Gravity models are based on the gravity law of spatial interaction. These models have been popular in tourism studies.

This paper argues and provides evidence that trade has a positive effect on tourism demand. Because trade can influence tourism demand, bilateral trade brings a preference for home-country products and can reduce transaction costs between home and host country.

How can trade increase tourism demand?

In this section, we present theoretical reasons to argue that bilateral trade has a positive effect on the share of tourism demand.

We consider that trade can influence tourism demand for two reasons. First, bilateral trade brings with it a preference for home-country products. Second, bilateral trade can reduce transaction costs between home and host country.

The mechanism of trade links

Cultural, historical and geographical proximity can also reduce transaction costs and promote tourism. Eilat and Einav (2004) and Phakdisoth and Kim (2007) found a positive impact of trade on tourism demand. Tourism demand could be explained by different factors. It is assumed that consumers rank alternatives.

The trade and tourism demand

In general, the literature on tourism demand focuses on the determinants, as in cost of transport, price, income in tourism generating countries, and population. The last proxy is very important to analyse the population changes. According to the literature, this variable is correlated with immigration (Witt, Witt, 1995; Oigenblick, Kirschenbaum, 2002). We consider that immigrants bring with them a preference for home-country products. For that reason, this phenomenon can reduce trading transaction costs. Tourism can be thought of as a form of temporary international migration. Some studies show that immigrants could promote the tourism of their host country with their family and friends (Oigenblick, Kirschenbaum, 2002; Dwyer et al., 1992).

In 1933, Bertil Ohlin concluded his seminal book on international trade theory. Ohlin believed that international trade theory is simply international localisation theory.

When economists discuss tourism, they normally think of many sectors linked through an input-output matrix.

Following Carey (1991), Fuji and Mark (1997), we consider that demand for travel exports is equal to:

$$TOUR_{it} = f(GDP, PR, TRADE, POP, DIST) \quad (1)$$

where:

$$\partial f / \partial GDP > 0, \partial f / \partial PR < 0, \partial f / \partial TRADE > 0, \partial f / \partial POP > 0, \partial f / \partial DIST < 0$$

and:

- $TOUR_{it}$ is the number of tourist arrivals;
- GDP is the income in tourist generation countries;
- PR is the relative price;
- $TRADE$ is the bilateral trade;
- POP is the total population in tourist generation countries;
- $DIST$ is the geographical distance.

Empirical studies

In this section, we present a survey of empirical studies. The review of the empirical literature on tourism demand by Crouch (1994), Witt and Witt (1995), Mervan and Payne (2007), Carrey (1991), and Lim (1997) suggests that tourist demand is measured as in tourist arrivals and departures, with tourist receipts as the dependent variable. The number of nights spent in the country has also been included, but much less frequently. For explanatory variables, the empirical models of tourism demand use consumer's income, the price of services, exchange rate, and distance.

The study by Vanegas Sr M. (2009) applied to Latin American countries and specifies an autoregressive model. The author incorporated lagged variables to evaluate the determinants of international tourism demand. The econometric model was formulated to evaluate the international tourism demand by residents of Argentina, Brazil, Colombia and Venezuela to Aruba.

Previous empirical studies on tourism, such as Carrey (1991), Jud and Joseph (1974), or Fuji and Mark (1981), have found income to be the most significant variable.

Some studies, including Mervan and Payne (2007), incorporate the dynamics of tourism demand for lagged effects on supply constraints. These authors study the demand for tourism for Croatian destinations. We can refer to other studies like Carey (1991), who studied Caribbean tourism demand.

Daniel and Ramos (2002) studied the cointegration to Portugal, including five countries of origin: France, Germany, Netherlands, Spain and UK. The authors concluded that forecasting tourism demand is important to analyse the country's economy. The econometric methodology showed that cointegration is non-existent in Portuguese tourism demand.

More recently, Phakdisoth and Kim (2007) specify static and dynamic panel data (GMM-DIF) models for tourism in Laos and estimate tourism demand equations. The authors concluded that communication for transportation infrastructures, destination risk, bilateral trade, and geographical distance are the main determinants of tourism in Laos.

Shareef and McAleer (2005) analysed the link between tourism demand and volatility as in ethnic diversity, political and economic system and environment.

The study of Vogt (2008) estimates real income and relative price of demand for US exports and imports of tourism. The author concluded that US trading partners appear to be more sensitive to the determinants of international tourism than in the US.

Econometrical model

Tourist visits can take place for various reasons: holidays, business trips, visits to friends and relatives, and others.

The dependent variable used is the number of arrivals at destination (i) from origin (j) in a given year staying in hotels ($TOUR$). Tourist nights spent in the destination country are an alternative measure. The data explanatory variables are sourced from the World Bank, World Development Indicators (2008), and the Bank of Portugal. The source used for the dependent variable was INE (National Institute of Statistics).

Explanatory variables and testing of hypothesis

Hypothesis 1: Tourism demand will be influenced by income in the country of origin of the tourists.

LogGDP is the logarithm of GDP per capita in tourist countries (PPP, in current international dollars). According to the literature, we expected a positive sign. Income in the origin country is the most frequently used explanatory variable. Most researchers have relied on nominal or real (*per capita*) personal or national income and GDP or GNP as measures (or proxies) for income in the origin. The studies consider that income is highly significant as a determinant of demand.

Hypothesis 2: Trade partners are an important vehicle to expand tourism.

Following Eliat and Einav (2004) and Phakdisoth and Kim (2007), we consider:

$$LogTRADE_{it} = \left(\frac{X_i + M_i}{GDP_{Portugal} + GDP_k} \right) \quad (2)$$

where:

X_i represents the annual exports of Portugal to the country of origin of each tourist at time t ;

M_i represents the annual import of Portugal from each tourist's country of origin at time t ;

GDP_k is the GDP per capita in tourist countries (PPP, in current international dollars).

Eilat and Einav (2004) and Phakdisoth and Kim (2007) found a positive sign when the authors used this proxy.

Hypothesis 3: Population changes are a result of high immigration from a particular country.

According to the literature (Witt and Witt, 1995, and Oigenblick and Kirschenbaum, 2002), we expected a positive sign. The authors show the level of tourism depends not only on the population of the origin country, but also on the immigrants from the destination country.

Population of the country of origin is also included as an explanatory variable, LogPOP, although it is theoretically incorrect to exclude population. This proxy is important to analyse the impact of population changes. Most studies do not consider this variable, because population tends to be highly correlated with income (multicollinearity problems). Jud and Joseph (1974) and Fuji and Mark (1981) found a positive sign.

Hypothesis 4: Macroeconomic variables influence the price of tourist service.

$$\text{LogPR}_{it} = \frac{\text{CPI}_{\text{Portugal}}}{\text{CPI}_k} \times \frac{E_{\text{Portugal}}}{E_k} \quad (3)$$

where:

LogPR_{it} is the logarithm of relative price, CPI is the index of consumer price (Portugal and partner) and E_{it} represents the exchange rate (Portugal and partner). According to the literature, a negative sign is expected.

Hypothesis 5: Tourism increases if the transportation cost decreases.

LogDIST is the logarithm of geographical distance between and the partner country. The cost of transports is important as a policy variable. According to the literature, we expected a negative sign.

Model specification

$$TOUR_{it} = \beta_0 + \beta_1 \times X_{it} + \delta t + \eta_i + \varepsilon_{it} \quad (4)$$

where:

$TOUR_{it}$ is the number of tourist arrivals, X is a set of explanatory variables. All variables are in the logarithm form; η_i is the unobserved time-invariant specific effects; δt captures a common deterministic trend; ε_{it} is a random disturbance assumed to be normal and identically distributed (IID) with $E(\varepsilon_{it})=0$; $Var(\varepsilon_{it})=\sigma^2 > 0$.

The model can be rewritten in the following dynamic representation:

$$TOUR_{it} = \rho \times TOUR_{it-1} + \beta_1 \times X_{it} - \rho \times \beta_1 \times X_{it-1} + \delta t + \eta_i + \varepsilon_{it} \quad (5)$$

Estimation results: static panel

In Table 1, we see the results with the fixed effects estimator. The explanatory power is very high (Adjusted $R^2=0.851$). All explanatory variables are significant (LogGDP at 5%, LogTRADE, LogDIST, and LogPOP at the 1% level), with the exception of LogPR.

The variable GDP is statically significant, with an expected positive sign. One of the main determinants of tourism demand is the positive impact in the Portuguese economy. Vanegas Sr M. (2009) and Phakdisoth and Kim (2007) also found this result.

The variable LogTRADE is statistically significant with a correct sign. This result demonstrates that trade partners are an important vehicle to expand tourism. The studies of Eilat and Einav (2004) and Phakdisoth and Kim (2007) found this result.

The coefficient of LogDIST (Distance) is negative, as expected. This result confirms the gravitational model and the importance of the neighbourhood.

The variable population (LogPOP) finds a positive sign. Jud and Joseph (1974) and Fuji and Mark (1981) also found a positive sign.

Table 1

**The impact of trade on Portuguese tourism demand:
Fixed effects**

Variables	Coefficient	Expected Sign
LogGDP	0.582 (2.239)**	(+)
LogTRADE	0.118 (8.518)***	(+)
LogPR	-0.626 (-0.010)	(-)
LogDIST	-0.572 (-3.059)***	(-)
LogPOP	0.620 (8.421)***	(+)
Adj. R ²	0.801	
Observations	196	

T-statistics (heteroskedasticity corrected) are in round brackets.

***/** - statistically significant, at the 1% and 5% levels, respectively.

Tobit model

The original model was suggested by James Tobin (1958).

In Table 2, we present the tobit estimator. Our analysis pretends to evaluate the signs of the coefficients and their significances. Comparing the Tobit estimates with the fixed effects, we note that relative price (PR) becomes significant with a correct sign (negative sign). This result is according to the finds of Vanegas Sr. (2009), Naude Saayman (2005), and the theoretical models.

The variable GDP is statically significant with an expected positive sign.

As expected, the variable LogTRADE has a significant and positive effect on tourism demand (Eliat and Einav, 2004, and Phakdisoth and Kim, 2007). The coefficient of LogDIST (Distance) validates Hypothesis 5. This result confirms again the importance of the neighbourhood. The proxy of population (Log POP) validates the theoretical models.

Table 2

**The impact of trade on Portuguese tourism demand:
Tobit model**

Variables	Coefficient	Expected Sign
LogGDP	0.579 (2.842)***	(+)
LogTRADE	0.079 (5.891)***	(+)
LogPR	-2.058 (-2.302)**	(-)
LogDIST	-0.829 (-6.139)***	(-)
LogPOP	0.619 (11.890)***	(+)
C	0.949 (0.819)	
SIGMA	0.381 (19.799)***	
Observations	196	
Log likelihood	-89.2710	

T-statistics (heteroskedasticity corrected) are in round brackets.

***/** - statistically significant, at the 1% and 5% levels, respectively.

Dynamic panel data

The dynamic panel data model, presented in Table 3, is valid if the estimator is consistent and the instruments are valid. The equations present consistent estimates, with no serial correlation (m1, m2 statistics). The Specification Sargan test shows that there is no problem with the validity of the instruments used.

Table 3

**The impact of trade on Portuguese tourism demand:
GMM-system estimator**

Variables	Coefficient	Expected signs
LogTOUR _{it-1}	0.459 (2.71)***	(+)
LogGDP	0.329 (2.11)**	(+)
LogTRADE	0.042 (2.30)**	(+)
LogPR	-0.440 (-0.512)	(-)
LogDIST	-0.339 (-2.06)**	(-)
LPOP	0.344 (3.40)***	(+)
C	0.004 (0.004)	
M ₁	-1.408 [0.159]	
M ₂	1.127 [0.260]	
Wjs	647.3 [0.000] Df=6	
Sargan	14.81 [1.000] Df=135	
Observations	176	
Parameters	7	
Individuals	19	

The null hypothesis that each coefficient is equal to zero is tested using a second-step robust standard error. T-statistics (heteroskedasticity corrected) are in round brackets. ***/**/* - statistically significant, at the 1%, 5%, and 10% level, respectively. P-values are in square brackets. Year dummies are included in all specifications (this is equivalent to transforming the variables into deviations from time means, i.e., the mean across the fourteen countries for each period). M1 and M2 are tests for first-order and second-order serial correlation in the first-differenced residuals, asymptotically distributed as N(0,1) under the null hypothesis of no serial correlation (based on the efficient two-step GMM estimator). W_{js} is the Wald statistic of joint significance of independent variables (for first steps, excluding time dummies and the constant term). Sargan is a test of the over-identifying restrictions, asymptotically

distributed as χ^2 under the null of the instruments' validity (with the two-step estimator).

The instruments in used are: LogTOUR_{it} (3,7), LogGDP (3,7), and LogTRADE (3,7) for first differences. For the levels equations, the instruments used are the first differences of all variables lagged t-2. The equations present five significant variables: (TOUR_{t-1}, TRADE, PR, DIST (or BORDER), POP).

Other results relating to Portuguese tourism demand include:

- i) Lagged dependent variable (TOUR_{t-1}): a positive sign was expected, and the results confirm this. So we can infer that the proxy has a positive impact on the Portuguese economy;
- ii) The variable GDP is statistically significant with an expected positive sign;
- iii) Bilateral trade (TRADE): the expected sign is positive, which is confirmed by the dynamic panel data;
- iv) Geographical distance (DIST): the dominant paradigm predicts a negative sign. The result confirms the dominant paradigm;
- v) BORDER: we expected a positive sign, and the result confirms this;
- vi) Population: Our results confirmed that the proxy tends to be highly correlated with income *per capita* (GDP). According to the literature (see for example Witt and Witt, 1995), this result expresses population changes and indicates a high immigration flow.

Conclusions

The objective of this study was to analyse some of the determinants of Portuguese tourism demand. Comparing our findings with other studies, we obtained similar results. Econometric estimations support the hypothesis formulated. Our results are robust with static and dynamic panel data.

The paper argues and puts forth results supporting that bilateral trade has a positive effect on the share of tourism demand. For this, we use a gravity model. Tourism is of a dynamic nature. In order to understand this phenomenon, in this paper we build a dynamic econometric model. The dynamic results confirm this hypothesis. The lagged tourism demand presents an expected positive sign.

Other explanatory variables such as geographical distance and relative price are statistically significant. These results prove the dynamic nature of tourism demand and suggest that a dynamic approach is needed in order to better understand the demand for tourism determinants. In the static model, we find empirical evidence for the effect of economic variables on Portuguese tourism demand.

The high growth rate in the number of international arrivals in recent years indicates the opportunities that Portugal has to develop as a tourist destination. This study has some limitations. In the future, we need to include for other variables such as language, culture, and immigration.

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Algorithms for the Public Pension System Reform in Romania – a Necessity Imposed by the Global Economic Crisis

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Abstract. *This study aims to analyze the public pension schemes in Romania in the light of the challenges presented by global economic crisis and by the Romanian reform inequities and inconsistencies that have been a part of this field since 2001. The contents of this paper examine four types of pension schemes in some Member States (MS) of the European Union (EU) which according to our research can be the basis for a development of Romanian public pension schemes that can be robust, flexible, equal and that can account to all endogenous and exogenous challenges, designed to encourage labor market retention of people of retirement age through a continued active life, at the expense of pensioner benefit. Study findings provide some viable solutions in terms of economic efficiency and equal benefit of retired and the proposal to reform the Romanian public pension scheme is necessary and can provide opportunities for those to whom it is addressed.*

Keywords: social security; public pension; labor market; social insurance; pension scheme.

JEL Codes: F02, F15, F53, F59, H55, O11, O52.

REL Codes: 3D, 10C, 20F.

1. Introduction

The pension problem, considered in light of the demographic and particularly acute financial situation, is one of the most current issues in focus and is seeking various forms of mitigation and mitigation of their effects both in our country and globally.

With the average size of pensions provided by the state at about 60% of the subsistence minimum for the bulk of retirees, the need to ensure a decent living in the post-active phase is becoming increasingly obvious, and the inefficient public system and current pension has become very visible. Taking this into consideration, the global economic crisis overlaps with a particularly acute demographic crisis caused by the accelerated aging of the population in the context of low birth rates and the major phenomenon of the working population exodus abroad and creates a strong pressure on the public pension fund, which, for a considerable time, has not been able to provide a high standard of living for the mass of pensioners.

Regulations introduced by the law of pensions and the pension reform were prepared and forwarded the need for Romanian insurance legislation to implement Community regulations concerning the application of social security systems to employees, independent workers and members of their families moving within the community and establishing procedures for their implementation (Regulation EEC no. 1408/71, Regulation EEC no. 574/72, Stegăroiu, 2007). The reform that began with the adoption of the new pension law has continued to adopt laws on compulsory component – Pillar II and with the optional – Pillar III (Stegăroiu, 2004).

State social insurance pensions are defined as entitlements granted to employees after a specified period of activity and age provided by law or if the total loss or most of the work capacity and survivors of such person (Stegăroiu, 2002). This definition follows the main categories of social security pensions covered by the state: the pension for work and old age, invalidity pension, survivor's pension.

In this respect we can say that Romania urgently needs to harmonize the pension scheme for salaried workers, officials, independent workers, farmers and especially civil servants and the budget sector, which should introduce a single law for the granting of a uniform pension for all these categories, regardless of their work done (Missoc, 2007). Today there should be a thorough reformulation and objective calculation of benefits, which would lead to a stronger link between benefits and contributions, including a system that would grant a “bonus” for financial and delay early withdrawals and changes in the government view over the system of indexation of pensions. The basis change

retirement scheme in Romania requires to put the principle of gradual transition from the previous to the reformed scheme. Recommendation of a single pension scheme is a difficult task. Pension depends on the social policies of governors, which may change some parts of the scheme.

2. The current state of the public pension system in Romania

The demographic situation in Romania, as in fact all over Europe, is characterized by the phenomenon of “aging population”, as defined by the scale of G. Bojio-Garnier, which shows that if the share of population aged over 60 years the total number of inhabitants is higher than the level of 12%, then there is the phenomenon of “aging population”. Thus, in Romania, in 2008 the share of people older than 60 years from the total number of population was 19.3% (Eurostat, 2009). However, the average EU-25 remains lower, around about 16.5% (Eurostat, 2009). Additionally, its proximity to the retirement age of those born during the baby boom years after World War II, the low birthrate and continuous exodus of jobs overseas assets, there are all prerequisites for increasing the rate of aging population to over 30% in 2050 (Eurostat, 2009).

Currently Romania faces major challenges regarding the sustainability of public pension system, both short and long-term. This is, on the one hand, related to short-term recovery issues, and secondly related to the problems caused, inter alia, by the relatively small number of contributors to the system in relation to the number of beneficiaries, by the low employment rate of 41, 4% for older workers, by a high rate of undeclared work (approximately 20-50% of total employment, according to the definitions used) and the yet insufficient resources.

The current public pension system in Romania represents for the first pillar, the majority, a type of intergenerational redistributive system – PAYG (Pay as You Go). The first pillar was brought into discussion as the others, the compulsory private administered one and the voluntary private administered one, are still being developed, with enough time to maturity. Thus, in the first pillar, as is known, the current pension payment occurs following the procedure of redistribution of current revenues collected by the state social insurance budget (BASS), which due to delays in implementation of reform led to a system currently unfair, while it is still supported by a viable multipillar. Therefore, we identified several deficiencies in the substance of the public pension system:

- *Mismanagement of social security funds*, the results of which began to occur with increasing pressure growing on the public pension fund, by increasing the state social security budget deficit, proving, if proof

were needed, the weakness of the public pension system to ensure a higher minimum income for most existing pensioners;

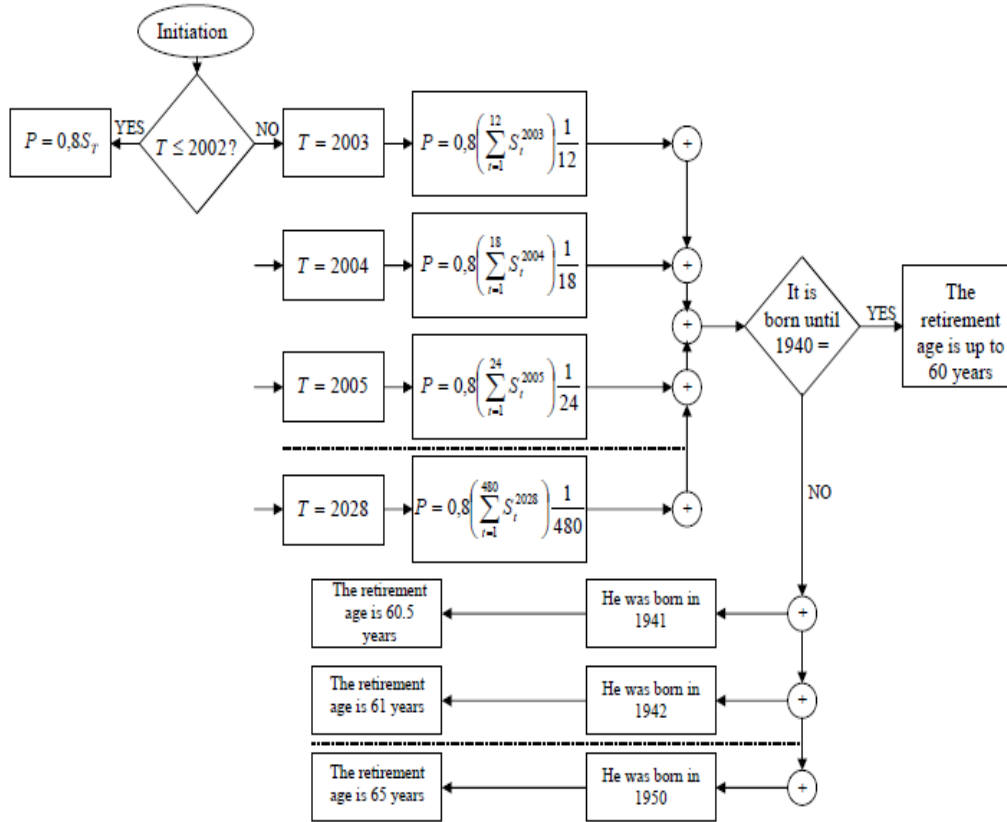
- *Organization of a redistributive type of system in the place of a funded one* – such a type of organization and allocation of assets is unquestionably a self-destruction of the current public pension fund, because it does not involve investing in assets accumulated in social security budget in financial instruments with a higher yield at least the inflation rate. First it deprives the capital market of an important source of cash to develop its direct results, and, on the other hand, creates demands on the entire public pension system, which is unable to cover current pension amount of government spending and even the erosion of pension indexation coverage over time;
- *Inequity in calculating and determining the nature of pension benefits* due to the emergence of pension benefits among the so-called “service pension” it has been knowingly breaching the central principle of pensions law, which was to increase pressure on public fund pension, manifested by strong growth in the pension budget deficit.

3. Analysis of public pension schemes in the EU

Existence of effective social protection system, resulting in social actions of all stakeholders (entrepreneurs, state employees, foundations, church, unions, etc.), to ensure a minimum income to those in difficulty or in some cases of the personal services, maintenance, healthcare, education, transport, etc.

In what follows, we will examine and demonstrate the operation of four public pension schemes, which in our understanding could form the basis of Romanian reform the public pension scheme, considering them to be the perfect present, the public market for such products.

Therefore, we analyze the four types of retirement: the type 1 (Austria), the type 2 (Belgian), type 3 (Swedish), type 4 (English). Pension scheme can be put as an algorithm (Figure 1), where T – the year when the individual retires, P – pension, ST – salary in retirement; St – salary the month t.



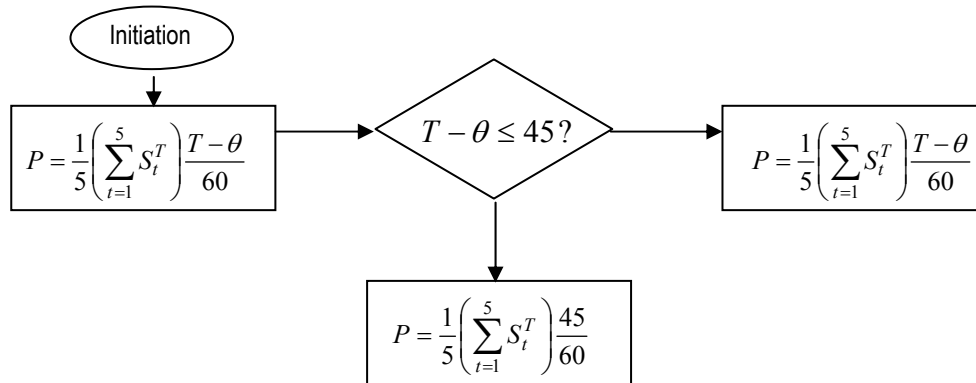
Source: Elaborated by the authors.

Figure 1. Scheme-block "Retirement type 1 (Austria)"

The next type of retirement, which proposed several possible alternatives for consideration in determining pension policies in Romania, is the Belgian (Figure 2).

Government of Romania has made important steps in order to increase the adequacy of pensions, reforms are needed to direct reference to early retirement, to encourage participation in working life of persons aged 50 to 60 years, thus achieving the so-called "pact between generations". This reform should make an important contribution within the meaning of acceptability and financial sustainability. In addition, promotion of occupational pension schemes could lead to increased, long-term replacement rates would also raise the standard of living of pensioners.

The process of establishing pension scheme such as 2 can be shaped (Figure 2).



where:

S_t^T – monthly salary in retirement;

T – year retirement;

θ – the entry into business.

Source: Elaborated by the authors.

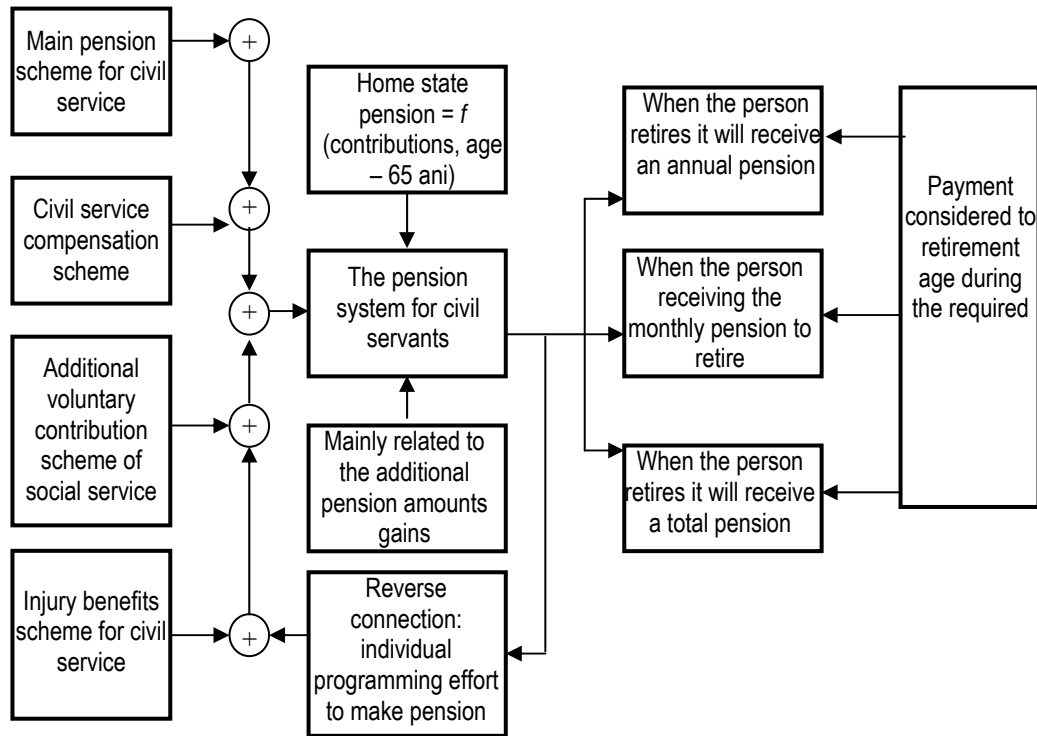
Figure 2. Scheme-block “Retirement type 2 (Belgian)”

Along with these measures confirmed increased participation in employment of persons aged 50 to 60 years, to ensure financial sustainability strategy should continue to be based on comprehensive management of social security and the reallocation of contributions collected in this regard as well and debt reduction. Savings from debt reduction could be transferred to a reserve fund for future expenses and then redirected to the segment of old age pensions.

A successful retirement scheme, in our view, has developed in Sweden, which managed to create a public pension system which meets the criterion of adequacy and that of financial stability, given that compensates workers scheduled replacement rates decrease by leaving the labor market much later. Sweden also provides financial sustainability of the pension system by expanding the reserve fund created in 1960 (it reached a value of 30% of GDP in 2005). Occupational pensions also made a notable contribution in such circumstances that covered approximately 90% of employees and usually provided an additional income amounting to approximately 10-15% of the total salary of a worker (Ginsburg, 1992). Swedish pension system provides a comprehensive computerization, an example of achieving annual figures and sent to its members a declaration of income accruing to that time and an estimate of the evolution of pension rights. Although the actuarial neutrality of the system and flexible opportunities to withdraw from the labor market should be able to prevent early retirement, there are trends to develop ways to

surrender early in the labor market, particularly through medical problems through benefits for disability (Whitehouse, 2007, European Commission, 2006).

In the Swedish type of working scheme there are no rules relating to nationality or residence other than the pension rights for “child-raising years”. There is no vesting period or terms of insurance for workers in Sweden. Only the pensionable income matters. No matter if that income is earned in a month or 12 months. Pension rights is based on pensionable income. The pension system is coordinated with the tax system. According to the main rules, pension rights are calculated based on taxable income. The scheme is a defined contribution scheme funded by contributions from employers and employees and to some extent overall taxable income. Employers’ contributions are taxed as a charge on the total wages. Employee contributions are calculated as a percentage of taxable income from work. Contributions are collected by state and he is obliged to transfer 18.5% of pensionable income from the pension fund. The pension is calculated based on average lifetime earnings. There is no “maximum qualification” and any rules that have pension amount calculated according to gain income “best years”. Both accrued pension rights and pensions are linked to average earnings. A crucial thing is the aggregate value of pension rights when called upon retirement. No matter if those rights are won for 20 or 50 years (Olson, 1990). In our opinion the system is very flexible. There is no fixed retirement age in the scheme linked to earnings (but guaranteed pension is granted at 65 years regardless of sex). An insured person may apply for pension from the age of 61 years and may postpone for an indefinite period. When it is required that pension affect the amount of pension according to actuarial principles. A person who continues to work after normal retirement age continue to acquire new pension rights. An applicant may choose to eliminate a fraction of accrued pension rights and 1/4, 1/2, 3/4 of a pension. The person may also choose between the two components of the scheme (PAYG component prefinancing component) and to defer payment of the other component. An applicant may discontinue a pension payment to get another job. Swedish-type system can be modeled (Figure 3).



Source: Elaborated by the authors.

Figure 4. Scheme-block "Retirement type 4 (English)"

Through recent reforms (European Commission, 1995) of state pension Secondary (PSS) and "pension credit" (PA), Great Britain made progress towards pension adequacy. Rates of poverty of pensioners have fallen in recent years and is expected to decline further, given that HP will take effect fully. UK pension schemes are also characterized, for many workers, with significant contributions to the occupational and personal pension schemes, not possible involvement in a pension such a type of PSS (but not the main scheme supported by state pensions).

Subsequently, the process adequacy and sustainability of pensions depends on the extension, more than in other countries, coverage and performance of private pensions. In this respect, at least three goals for the future are born fitness. The first is the impact of DC pension plans to transfer the contributions to occupational pension schemes (Turner, 2005). The second is the possibility of increasing the amount of insurance offered by the state basic pension increases through other sources of income for retirement. The third is how to continue the

process of improving incentives for continuing work after a certain age and also for subsequent savings. English government established a Pensions Commission in 2002, which can monitor the adequacy of private pension savings and in particular to assess where there is a need to “move from a voluntary approach”. In the second recent published report, by the Pensions Commission made a number of proposals such as increasing the retirement age, a redirection of income indexed to the state pension system and establishing a national pension savings scheme, with low cost and being centrally organized, in which workers have the opportunity to self-include (but with the option to abandon). The UK Government has opened a new stage in the national pensions debate, with the intention to submit a list containing their proposals for pension reform in the spring of 2006 (Whitehouse, 2007, European Commission, 2006).

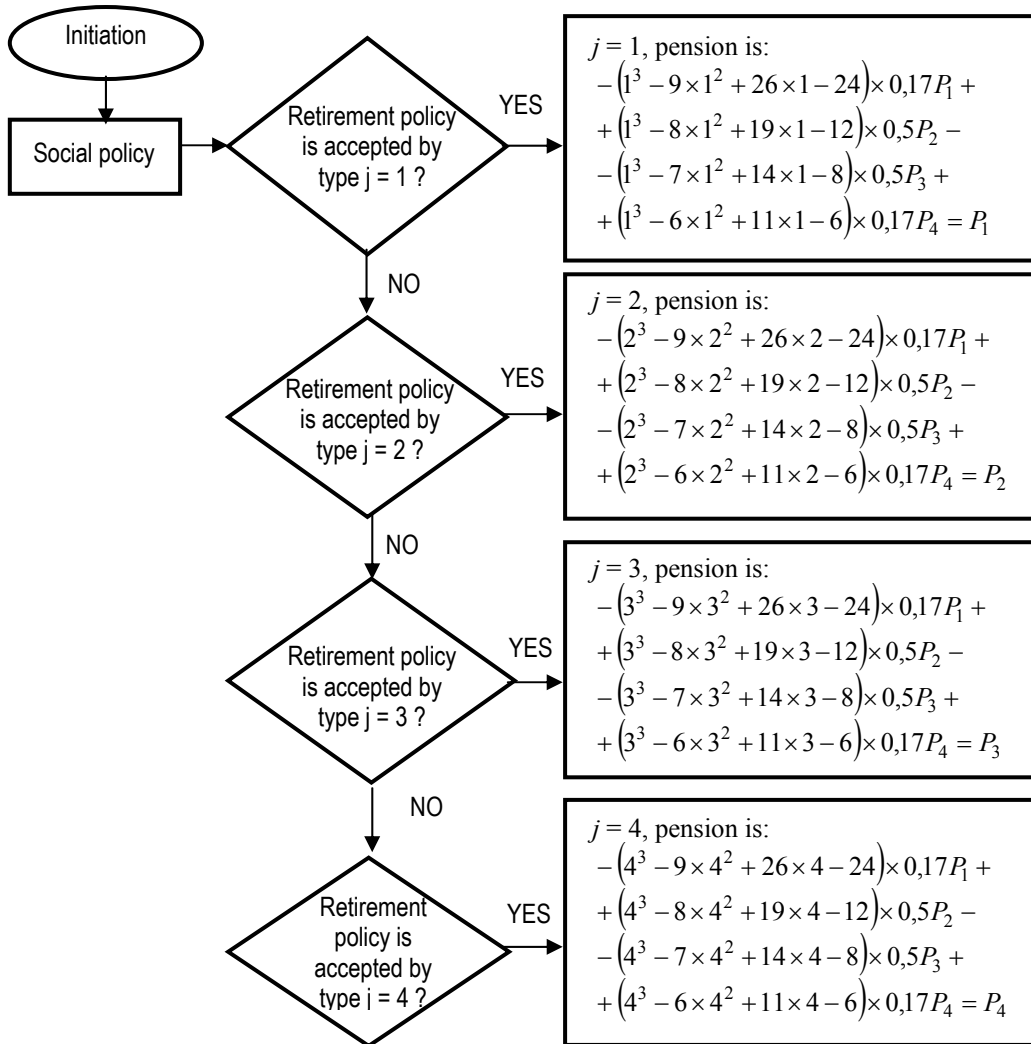
In the UK pension system for civil servants includes several elements: Main scheme of civil service pensions (SPPSC), Compensation Scheme for Civil Service (SCSC), additional voluntary contributions scheme of Social Service (SCVSSS) and Scheme Benefits for the injuries of Social Service (SPVSS). All these elements are statutory scheme of the Act of 1972. SPPSC is occupational pension scheme for civil service providing retirement benefits. SCSC includes cases of early retirement and need. SCVSSS provide officials to make additional contributions through a money purchase arrangement to provide a supplementary pension and benefits for life. SPVSS ensure income civil servants who are injured or die during service. Membership in these schemes include all civil servants (European Commission, 2007). In addition, State pension provides Main State (SLS), PSS and Guaranteed Income (VMG). PPS is given to those who have paid enough national insurance contributions during their working lives. Be paid from age 65 for men and 60 for women although women’s retirement age will rise to 65 years between 2010-2020. PSS provides a basic pension and supplementary pension is linked to earnings. The rules for calculating the classical scheme is as follows: when a person retires, it will receive an annual pension and a lump sum. The amount of these benefits depends on the payment considered retirement age and duration required. Age part-time is taken into account based on hours worked and paid full-time retirement. However, in the past there were various restrictions on persons entitled to participate in the scheme based on hours worked.

The maximum retirement age should be requested at 40 years. A person can accumulate seniority if they are working after retirement age but not more than 45 years. When the person is old enough to receive state pension, the main pension is paid in addition to traditional pensions only if the person has paid the necessary contributions. The rules of calculation can be expressed by diagram block (Figure 4).

The amount of pension P_j , $j = 1, 2, 3, 4$ depends on social policy that can support one of the types discussed:

$$P_j = (j^3 - 6j^2 + 11 \times j - 6) \times 0,17P_4 - (j^3 - 7j^2 + 14 \times j - 8) \times 0,5P_3 + (j^3 - 8j^2 + 19 \times j - 12) \times 0,5P_2 + (j^3 - 9j^2 + 26 \times j - 24) \times 0,17P_1 \quad (1)$$

Calculation of pension schemes is carried out after 1, 2, 3, 4, social policy directs the amount of pension (Figure 5).



Source: Elaborated by the authors.

Figure 5. Scheme-block "pension depends on social policy"

4. Analysis of public pension schemes in Romania

The public system of the social security pension amount for the retirement entry is determined by multiplying the annual average score achieved by the insured during the period of contribution to the value of a pension point of retirement months.

The basical theoretical calculation of the pension formula can be (IER, 2004):

$$Cp = \sum \left\{ \left[\frac{(Vba_i / Vbm_i)}{Sc} \right] \times A \times E \right\} \times Vpp \quad (2)$$

where:

Cp = amount of pension;

Vba_i = average gross income of the insured in “i”;

i = year in which the subject worked;

Vbm_i = gross average income in the year “i” published in CNS;

Sc = the complete contribution;

A = coefficient of access (by type of pension like “survivor’s” pension, the level of disability, etc.);

E = coefficient of elasticity (0.3% weighting for additional months worked after retirement age, so the additional 3.6% per year worked);

Vpp = value of the pension point.

For a comprehensive treatment of the pension system in Romania, one starts to analyze the amount of pension that depends on a number of factors: the average income of the insured in each year, which for reasons known from year to year changes, the average income of an individual insured at the economy, the number of years of contribution to stage what is required, the type of activity, for certain favors, called elasticity, the level of economic development at the time of retirement. An original treatment of the problem of calculating the pension can be found in IER 2004. Developing the formula, as it was originally treated, we note by $x_t, \bar{x}_t$ – average income of the insured, an insured in the national economy (or in the branch considered), $t = 1, 2, \dots, T$, where T – number of years needed to achieve the complete contribution. With the report $\frac{x_t}{\bar{x}_t}$ one

obtains the share of income against the average insured in the economy in t , $t = 1, 2, \dots, T$. To make different in different years this report will be different, less than or greater than 1. We call these “parties” points. During $(0, T)$

policyholder will accumulate a total $\frac{x_1}{\bar{x}_1} + \frac{x_2}{\bar{x}_2} + \dots + \frac{x_t}{\bar{x}_t} + \dots + \frac{x_T}{\bar{x}_T} = \sum_{t=1}^T \frac{x_t}{\bar{x}_t}$ points, the arithmetic mean being:

$$\frac{1}{T} \left(\sum_{t=1}^T \frac{x_t}{x_t} \right) \text{ points} \quad (3)$$

Access to retirement is a vector $(\bar{A})$. Policyholder may be entitled to a pension as the survivor, the level of disability, etc. Mean $\bar{A} = (A_1, A_2, \dots, A_i, \dots, A_\alpha)$. Depending on the specific work and of importance to society, their being put on the insured, etc., the pension may be increased under a law (elasticity pension). And elasticity of the pension is thus a vector $E = (E_1, E_2, \dots, E_j, \dots, E_\beta)$. To include all options possible in terms of “access to retirement”, “elasticity pension”, we elaborate matrix of coefficients multiplying $\gamma_{ij} = A_i \times E_j$, $i = 1, 2, \dots, \alpha$; $j = 1, 2, \dots, \beta$ (Table 1).

Table 1

Coefficients matrix-multiplying						
Access \ Elasticity	E ₁	E ₂	...	E _j	...	E _β
A ₁	γ ₁₁	γ ₁₂	...	γ _{1j}	...	γ _{1β}
A ₂	γ ₂₁	γ ₂₂	...	γ _{2j}	...	γ _{2β}
⋮	⋮	⋮	...	⋮	...	⋮
A _i	γ _{i1}	γ _{i2}	...	γ _{ij}	...	γ _{iβ}
⋮	⋮	⋮	...	⋮	...	⋮
A _α	γ _{α1}	γ _{α2}	...	γ _{αj}	...	γ _{αβ}

Source: Elaborated by the authors.

So policyholders, through coefficients γ_{ij} , $i = 1, 2, \dots, \alpha$; $j = 1, 2, \dots, \beta$, will be disadvantaged by the number of points accumulated during the interval to ensure $(0; T)$. Pension points can be expressed:

$$P_{ij} = \frac{\gamma_{ij}}{T} \left(\sum_{t=1}^T \frac{x_t}{x_t} \right) \text{ points} \quad (4)$$

A point expressed value in retirement year is estimated at $V \frac{lei}{\text{point}}$. So pension expressed in RON will be:

$$P_{ij} = \frac{\gamma_{ij} \times V}{T} \left(\sum_{t=1}^T \frac{x_t}{x_t} \right) \text{ RON} \quad (5)$$

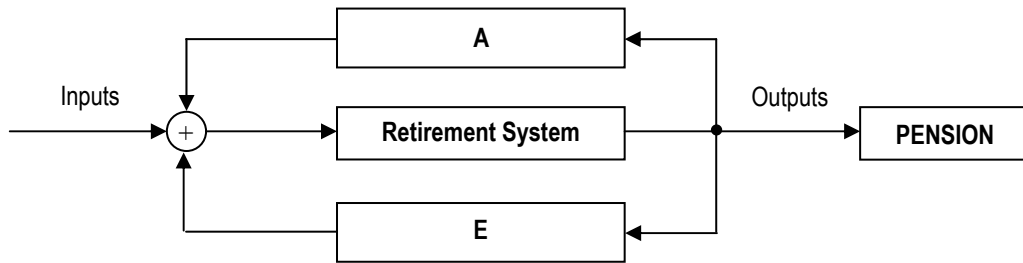
Establishing a pension in this way has a number of reasons: it is taken into account the whole range of activity of the insured, the insured income, average incomes in the national economy each year, in a way the country's

economic crisis periods, inflation years of crisis affecting the interests of future pensioners, to ensure a certain social equity by establishing a single value of a pension point. Part low: coefficients γ_{ij} , $i = 1, 2, \dots, \alpha$; $j = 1, 2, \dots, \beta$, are constant in time. In our view, both and multiplying factors and the expression value of pension points must evolve over time, that is, they should be replaced with:

$$\gamma_{ij}^{(t)}, \quad i = 1, 2, \dots, \alpha; \quad j = 1, 2, \dots, \beta; \quad t = 1, 2, \dots, T$$

$$V^{(t)}, \quad t = 1, 2, \dots, T$$

Coefficients “access” (A) and “Elasticity” (E) can also be used by authorities as a “rules-stimulant” (Figure 6).



Source: Elaborated by the authors.

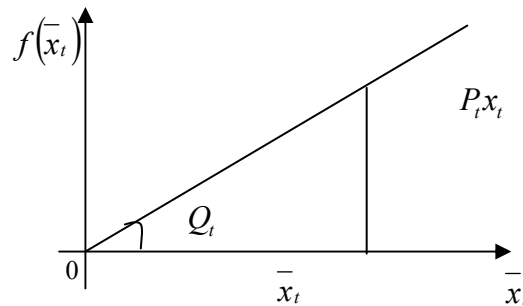
Figure 6. Block diagram A – E

As a “regular” retirement system, called the system tuned, serve: governments, by setting the value $V^{(t)}$ a point of pension; policyholders, with vectors A and E.

Pension can be expressed in value as calculated using the formula:

$$P_{ij}^{(t)} = \frac{\gamma_{ij}^{(t)} \times V^{(t)}}{T} \times \operatorname{tg} Q_t \quad (6)$$

where angle Q_t is the slope function $x_t = f(\bar{x}_t)$ (Figure 7).



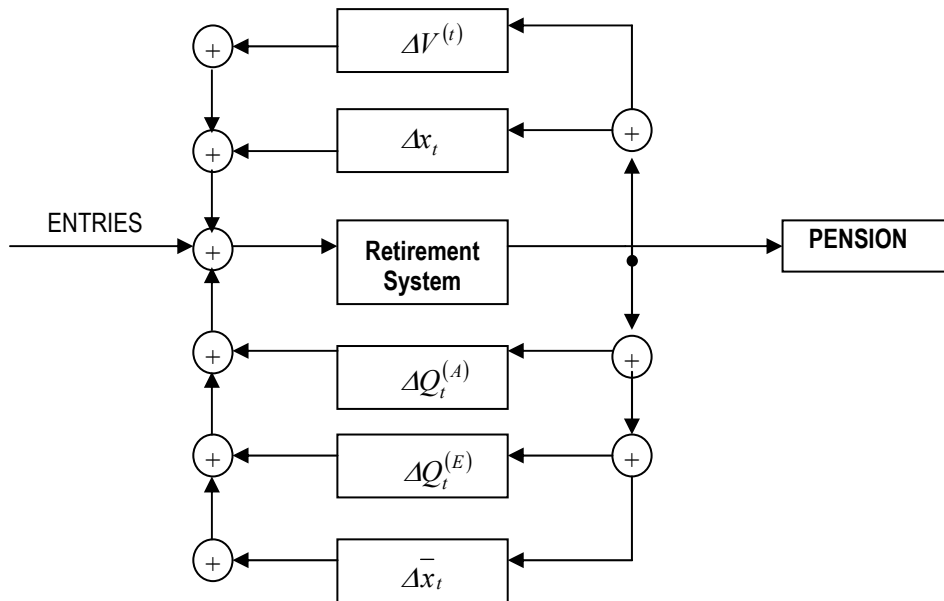
Source: Elaborated by the authors.

Figure 7. Graphic interpretation of the points in year t

$$\frac{x_t}{x_t} = P_t - \text{points made by the insured in year } t. \quad x_t = P_t \times \bar{x}_t.$$

The increase or decrease of the angle Q_t depends on the a policyholder effort to earn more (Δx_t), on the government authorities who may, if their economic development allow, them increase expression of the pension point value, on the insured's effort to benefit of the coefficient A to increase the angle Q_t with $\Delta Q_t^{(A)}$, on the coefficient E to increase $\Delta Q_t^{(E)}$, of the national economic development through the media $\bar{x}_t$ may have an increase of $\Delta \bar{x}_t$. Increasing the pension point value is a consequence of GDP growth, and hence the average growth $\bar{x}_t$.

Consequently, the pension may increase, remain constant or even reduce (Figure 8).



Source: Elaborated by the authors.

Figure 8. Adjustment system “PENSION”

As such, public pension for full length is calculated for the entire contributory period according to three basic components: gross monthly salary of the insurers which formed the basis for calculating the individual contribution of social security achieved; gross average wage in the economy of each month contributory period and a pension point value which is set annually

by law approving the budget of social security being a percentage between 30% and 50% of the gross average salary used to substantiate the state social insurance budget.

Conclusions

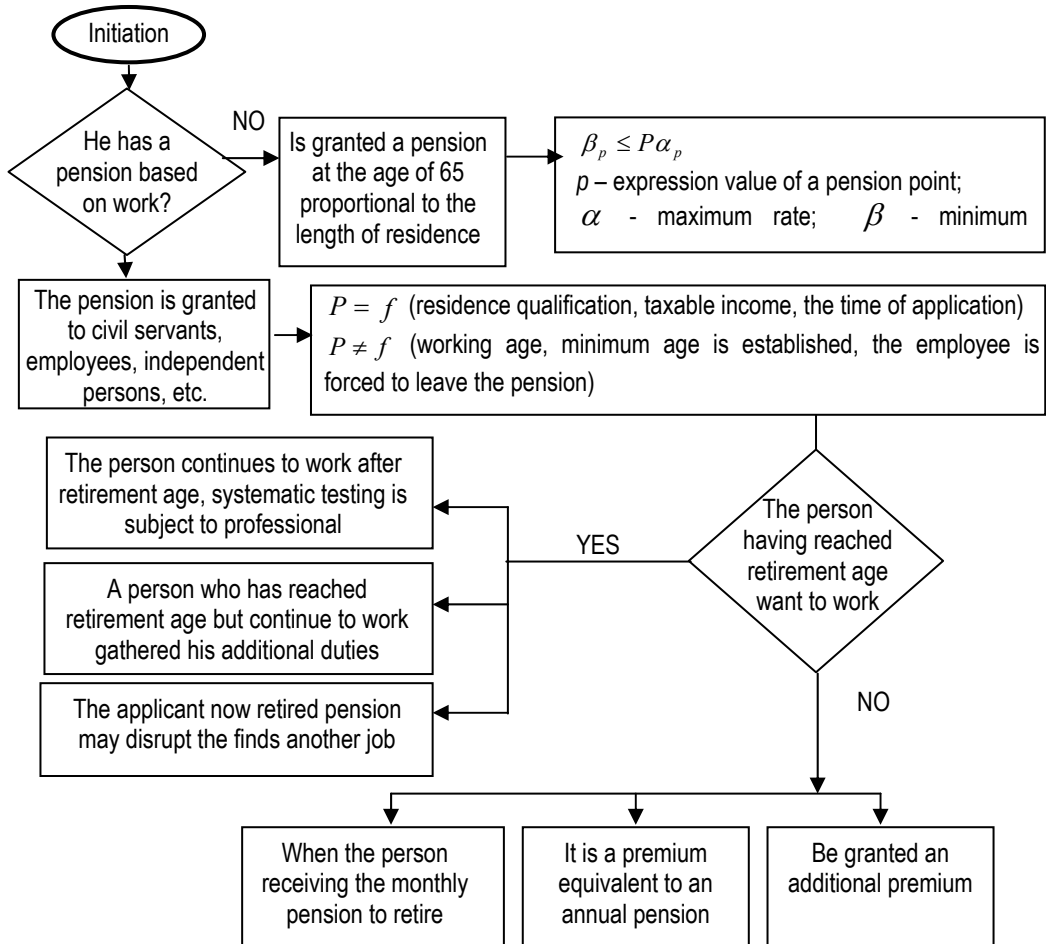
Romania, based on the economic and social factors, must prepare its retirement schemes. The basis of these elaborations can be the schemes of type 1, 2, 3, 4, which are discussed above. The current system of retirement in our country is not adequate for solving economic and social problems. According to our calculations, 27% of the active work force emigrated from Romania. The methods of pension determination in Romania along with some priorities (excluding the impact of inflation) do not always reflect the applicant contribution during his active work. Pension is determined by the formula:

$$P_{ij} = \frac{\gamma_{ij} \times V}{T} \left(\sum_{t=1}^T \frac{X_t}{\bar{X}_t} \right) \quad (7)$$

In the national economy the salary of some categories of specialists increases under the impact of external factors (eg, workers in the banking, insurance of goods etc.). In this case, the amount of report $\frac{X_t}{\bar{X}_t}$ reduced: some experts in the economy will be unduly disadvantaged when they apply for grant of pension (due to increased average value $\bar{X}$).

Another issue. The specialist is formed in 2/3 of his active life and only 1/3 is used for creative purposes. This asks for a review of the active period of employment, the age limit should, in our view, be flexible. In our opinion, we believe that man may receive any age pension, pension for the time being active, the contribution paid. Schematically, retirement can be represented as below (Figure 9).

Insurance schemes across from major structural changes, characterized by a multitude of principles that differ according to the difficulties to be covered by the evolution of society as a whole; a number of major trends appear aimed at studying various problems facing social security and pension schemes, social security protection of the unemployed and not least the whole system of financing social protection efforts of most European countries differ from one state to another, countries that fully reformed insurance system radical social change leading to the basic pension schemes, countries have statutory schemes further institutional reform, countries have begun to reform itself to social security pension, countries that are at the stage of negotiations and research with social partners finding a common point in starting the reform process.



Source: Elaborated by the authors.

Figure 9. Scheme-block “Romanian pension system type”

The basic principle of the reform of social security systems is to reduce pressure on state intervention which has direct consequences in increasing the efficiency of European social policies.

Along with the redistributive pension reform another phenomenon takes place: finding new methods and programs that promote the maintenance of working life of people in trouble and the people who are partially incapacitated for work. Long-term evolution of demographic indicators will have a number of negative effects both on revenue and expenditure of public pension insurance, but also on other public social expenditure, such as labor market itself, with indirect

implications on capital market. The principle governing the redistributive pension systems makes a group active in the labor market steadily decreasing to balance a group of people withdrawn from the labor market which is still growing.

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Public and Private Relations – a New Philosophy of Management

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Abstract. *Public administration presents a specific and intricate system of components and relations. The recent period of development in our society has been characterised by a lot of transformation processes of Slovakia as well as of other countries. The significant transformation processes brought about reform processes in public administration which have been accomplished in recent years but nevertheless globalisation is the reason for introducing new conditions pointing out many open questions and revealing problems to be solved and many challenges to met as well. In the submitted paper we consider managing self-government in a wider context and the position of public university as a medium of scientific research and development in the economy of state.*

Keywords: public administration; public relations; private relations; philosophy of management; international relations.

JEL Codes: H11, H41.

REL Codes: 3B, 5B, 13I.

1. Public administration in development

New reforms, introduction of various components and a different comprehension of public administration in Slovakia lead to decentralisation, all these processes have had a significant influence on teaching process of economical subjects at the Faculty of Public Administration which educates experts in the field of state administration as well as of self-government. Public administration is enriched by new dimensions which are apparent in the following fields:

- a competitive environment has been created but our communities could not get accustomed to it easily because of previous monopoly power. This new environment accentuates the quality of provided services by public administration. Universities, as part of public sector, could meet challenges if they acquire the new philosophy of teaching process, i.e. a closer interconnection between theoretical proficiency and application of practical skills, both of them have to produce a common output – providing services to citizens at a required level;
- the next target is not only to create but also to accumulate responsible reserve knowledge as well as verify interconnection between theory and practice, on the other hand a new dimension is arising and it is developed in the field of scientific research in close cooperation with foreign universities predominantly within the EU;
- new trends in public administration lead to creation of partnership with companies and entrepreneurial environment which is very suitable for gaining financial support as there is a permanent lack of it in public administration. It influences the content of education process in which we have to combine output of public administration and economical features of very precise performance evaluation which is still applied in entrepreneurial environment.

In the regional development universities play a new significant role. It is presented by the model “triple helix”: region – public administration – university. The university is entitled to become an active initiator as well as the medium of practical application of knowledge in the process of creation of economical and social development schedule.

There is a necessity of permanent improvement and updating of education process as nowadays transformations are implemented into praxis as soon as possible and therefore it requires an immediate reaction of universities.

From economical point of view the task resp. the mission and aim of self-government is to carry out activities which the private sector is not ready or able to ensure. The operation of self-government is determined by existing legal

regulations which define jurisdiction, competence and responsibility and as a consequence a self-government unit acts as a legal one which stands for a community of citizens and has to operate in order to prove its vitality. The supposition of qualitative fulfilment of tasks carried out by self-government and nevertheless the justification of its existence require arrangement of a system which has to answer the following four questions.

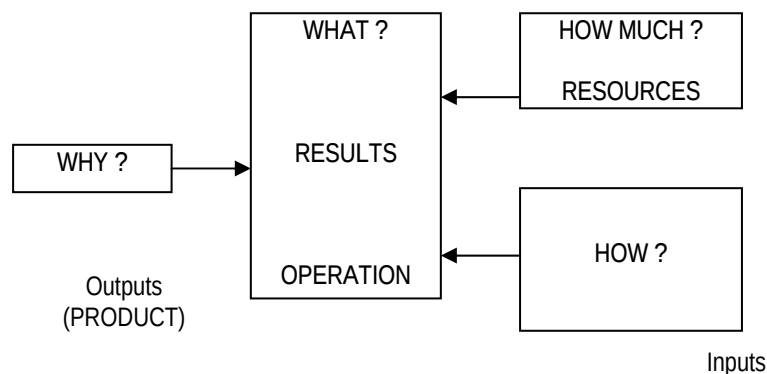


Figure 1. *Philosophy of management*

The main point of different approach to private sector is that the aim of activities of public administration is generally not targeted at making a profit. In fact it does not mean that the self-government should not operate in an effective way and that it should not search for chances how to improve its activities and to achieve a higher efficiency. Both sectors, the private one and the self-government have in common the requirement on managing all processes (activities, operations). The current selfgovernment and its ongoing transformation require the application of modern managing approaches and methods. It concerns the reconstructional process targeted at the following fields:

- transformation in the field of tasks and executed operations – a continual development/technological, informational, etc. in the society claims a higher demand on qualitative parameters of executed operations and, at the same time, it requires a more competent approach of self-government at fulfilling these tasks and the self-government is supposed to become an initiator and creative producer of new approaches and products as the self-government should and is able to provide it.
- transformation of general arrangement of organisation (e.g. financing). A system of transformation has been started in the field of financing

self-government by fiscal decentralisation the main point of which is the requirement on multisource financing and this way the vitality of organisations of self-government can be proved concerning first of all the ability to get these resources;

- transformation in the organisational structure and in approaches;
- transformations in the field of company culture (it is inevitable that the self-government is responsible for relations with public and using its own initiative it can change the negative attitude of its clients, etc.).

The successful restructuralisation process should lead to improvement in the fields of finance, property, organisation, personell and information.

In recent years many aspects mentioned before have been dealt with in the transformation process of public administration. However, we are sure that a great amount of transformation which influences the organisations in market economy concerns the public administration as well and it has to meet the challenges of ongoing conditions in its external and internal environment as well. Traditionally, public administration has been characterised as an inefficient and inflexible unit. At present it is necessary to shift from traditional model of management of public administration to innovative one. (Věreš-Balážová, 2006).

In 90-ies, as a consequence of transformation of economics and society, the competitive advantage started to be based on ability to apply knowledge in an appropriate way. The trend is to achieve a “knowledge-based economy”, in which knowledge is the key resource and education – the most important process. The regions have to adopt the principal way of knowledge creation and life-long learning as all the regions have become learning ones because learning is a process and each process is connected to a certain environment (Bučák, 2006).

The general task of each university is to ensure university education and basic or applied research. Providing this product universities enter the market of education and a new component appears – market competition.

There is an increasing trend to emphasise the importance of knowledge for economical development and for creation of an information society; as a result it could lead to foundation of a knowledge based economy.

Nowadays we highlight the diffusion of knowledge within the system consisting of four media of knowledge shown in Figure 2.

The scientific sphere consists of two components. The educational one, which includes educational and training organisations. The other component is the scientific one, including research centres/also as a part of the university/which create and disseminate knowledge and deliver scientific publications.

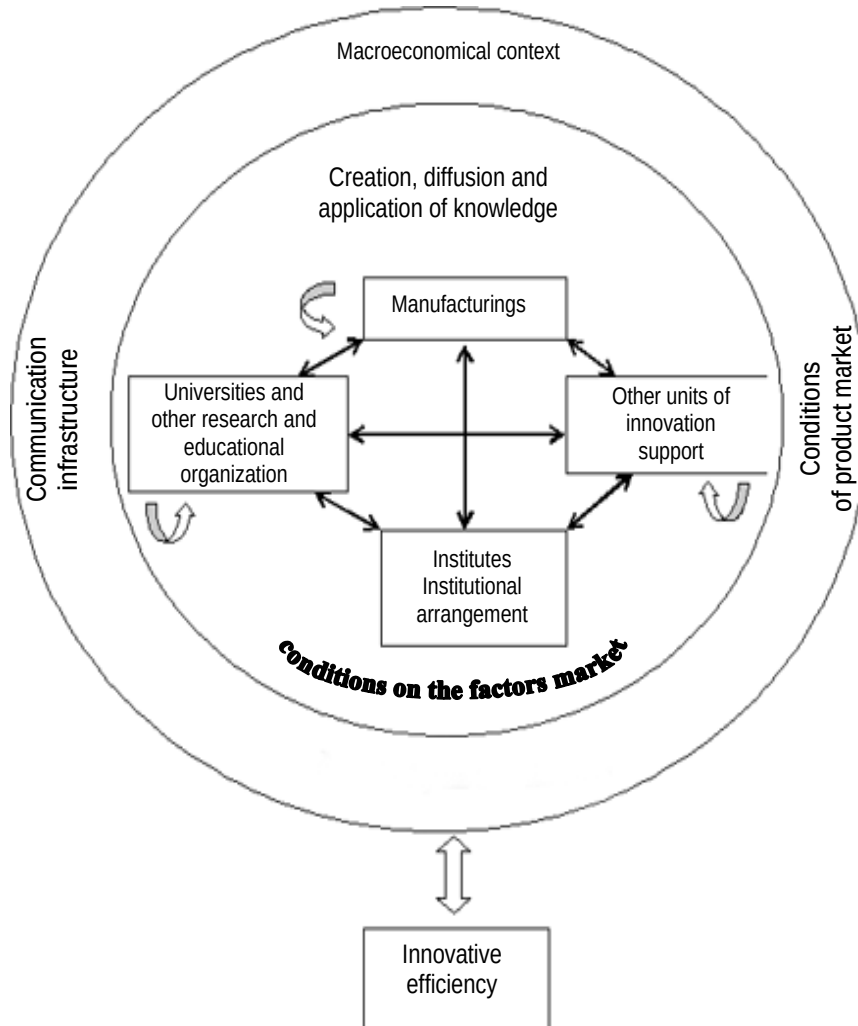


Figure 2. Basic components of an innovative system

Education is becoming very important and the overall tasks of the universities can be divided into three groups:

1. educational component – the university as the highest educational and research organisation delivering scientists and experts determines the quality of human potential;
2. research component – the university as creator and medium of knowledge in various ways such as seminars, scientific publications, books, papers;
3. transfer of knowledge and technologies from university research into praxis.

We can consider two significant ways how universities can influence the human potential and public and entrepreneurial environment. In this case the spatial dimension of influence of knowledge in different regions has become more dominant. At this point we determine the status as “infectional diffusion” – it means that the influence of knowledge decreases due to distance from its resource – i.e. university. At the same time universities become competitors to each other and due to their products, students-graduates they gain a competitive advantage compared with individuals without education. Education also influences the economical development of a region. Universities play a key role in education of highly skilled workforce and should fulfil the following requirements:

- cooperation with private sector and regional institutions at creation of curricula;
- provision of lifelong learning and transfer of knowledge;
- active participation in the activities of regional organizations;
- support of interconnection between private and public sectors with the aim to develop the region;
- foundation of institutes supporting cooperation of universities and organizations;
- supply measurements on commercialization of intellectual property of university which support a more effective distribution of knowledge.

In addition to prove the actuality of above mentioned ideas we present the foundation of the Faculty of Public Administration in Košice and its establishment in competitive environment of Slovakia.

The Faculty of Public Administration is a specialised faculty for the sphere of public administration focused on:

- education of experts for public administration and public sector by providing university education in study branch “Public Politics and Public Administration” in bachelor and master degree “Public Administration”, implementing knowledge and experience applied in educational processes of EU countries taking into consideration the requirements of current praxis in the field of public administration;
- delivery of knowledge concerning public administration and all the other similar fields and research branches by carrying out research and disseminating its results via informational and communicational technologies.
- providing services for public as advisory and expertise activities, disseminating the latest knowledge from the field of public administration in the further educational process with emphasis on relations with local municipalities at state level and higher territorial units.

2. Position of Faculty of Public Administration Košice in Slovakia

In the field of public relations the Faculty of Public Administration focuses on following activities:

- International relations (project ERASMUS):
 - a) students and teachers mobilities;
 - b) participation in 7 RP Framework program;
 - c) FPA as member of “International Forum of Public Administration (IFPAM)” takes part in information exchange, processing of common curricula, respectively gathering materials, organising common conferences and meetings.
- Public relations:
 - a) cooperation with local municipalities and with selected state budget organisations at submitting diploma thesis;
 - b) application of results of project VEGA under some titles
 - measurement of efficiency of provided services by public administration;
 - informatisation of public administration;
 - professional education of staff of public administration;
 - ethical dimension.
-
- Private relations:
 - a) present relations of the faculty to private sector of profit organisations which enable to provide life long learning at different institutions;
 - b) advisory services concerning predominantly legal and economical spheres on the base of private relations and according to requirements of given institutes on given teacher and nevertheless membership in different commissions and participation in various events taking into consideration the reputation of given teacher.

Returning to the aim of our paper: public and private relations...

Public administration has to cooperate with private sector. It creates legislacy, rules and it targets to achieve a well/performing successful private sector. Public administration determines the revenue of state budget by taxation – this revenue is the basis of financing public services including education, which covers public universities, as well as the Faculty of Public Administration in Košice, as a result there should be a reciprocity of legislative arrangement for private sector and an optimal partial income contribution in an efficient economy in order to get sufficient financial resources for non-productive sphere – for public administration.

The importance of interconnection of “3 Ps” public-private partnership is often dealt as a barrier because incorrect decisions made in public sector moreover non-transparency in decision-making of a given closed group of people who are just at power bring about economical consequences and weaken the market relations, they do not allocate resources in an optimal way, deform economic competition. The interconnection market-public administration has been disrupted which is reflected in the 3 sector. As a consequence, well-performing universities do not have sufficient financial resources and the results of research, which are inevitably important for public and private sectors as well, are adequate to given situation.

3. Conclusion

The new context in scientific research provides possibilities for many types of cooperation; however certain conditions have to be available. In my opinion at present time they are not present and, therefore, the efficient interconnection between public and private relations appears only rarely.

The Faculty of Public Administration plays a key role in development of region and, due to its results in scientific research, could successfully contribute to implementation of results into praxis and support the efficient performance and development of public administration in cooperation with partners.

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A SWOT Analysis on the Waste Management Problem in Romania in 2010

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Abstract. *From human activities are resulting huge amounts of waste, with different types of impact: lands changing, visual discomfort, air pollution, surface water pollution, soil fertility changes etc. Romania, a European Union member state, faces in turn with annual generation of significant quantities of waste, which cause problems of storage, recycling, reappraisal or their destruction.*

Romania has to involve - without exception - all institutions and each and every citizen in this action and to spend whatever is needed to get a clean and bright face.

We present below a SWOT analysis on waste management in our country at the beginning of the year 2010.

Keywords: waste; environment protection; SWOT analysis; sustainable development; strategy.

JEL Codes: Q53, Q56, Q58.

REL Codes: 15C, 15D, 15G.

Anywhere in the world from human activities are resulting huge amounts of waste, with different types of impact: lands changing, visual discomfort, air pollution, surface water pollution, soil fertility changes etc. Romania, a European Union member state, faces in turn with annual generation of significant quantities of waste, which cause problems of storage, recycling, reappraisal or their destruction, otherwise said the with protection of the environment.

In the context of EU integration, Romania was obliged to organize all the work in this area, to develop strategies aimed at recovering and reusing waste. A proper behavior in this regard is essential because it will ensure the limiting of waste, given fact that resources are insufficient and expensive for the more increasingly, diversified and also sophisticated needs of the Romanians.

Now, Romania gives detectable but not enough intense signals that it joins not only declarative but also factually the global sustainable development initiative. The concept has been launched since 1987 by the Prime Minister of Norway, Gro Harlem Brundtland, during the presentation of the report "Our Common Future". Sustainable development has a simple definition: it is "the development that meets present needs without compromising the ability of future generations to meet their own needs". But theory is one thing and practice is something else, because it depends exclusively on the human race, currently severely viced in any place on earth, devoided of will and education in this regard.

Sustainable development has a decisive component on environmental issues which represents one of the EU horizontal policies. Therefore, in the documents negotiated by Romania with the European Union for accession, Chapter 22: "Environmental Protection" has taken an independently place, in which the position "Waste" was distinguished. Our country is committed to a time of 15 years to substantially reduce the quantities of waste, to create the necessary systems for collection, recycling and reappraisal, but also to protect the future of the environment and population against pollution.

The compliance to the European standards is a priority and a necessity. The heritage due to an industrialization policy that aimed only results, without taking into account the consequences, is very difficult. We will have a short time, from now on, to repair and build an economic and social framework in accordance to the EU rules.

To become a clean country, Romania has to involve – without exception – all institutions and each and every citizen in this action and to spend whatever is needed to get a clean and bright face. This effort finally means human health protection, environmental protection and saving natural resources. It is extremely difficult for a country whose people has not received appropriate

education in this direction, and now responds difficultly enough to the signals transmitted to him to change completely his behavior practically convenient, wasteful and indifferent to the “suffering” of the environment.

Environmental protection has been placed to public interest and major responsibility objective based on fundamental principles of the environmental law: the principle of conservation, the principle of prevention, the principle of precaution in making decisions and the “polluter pays” principle.

We present below a SWOT analysis on waste management in our country at the beginning of the year 2010.

Strengths

- Work in this area has been entrusted since 2004 to a specialized agency of the Central Public Administration: National Environmental Protection Agency, with regional and local structures, with specific powers and duties, subordinated to the Ministry of Environment and Forests. In the establishment of this Ministry there is the Environment Department with responsibility on: Pollution control; Ground. Underground. Contaminated lands; Waste management; Dangerous substances; SOP Environment;

- In parallel, but with other powers the Environment National Guard operates;

- It was developed a National Waste Management Strategy for the period 2003-2013, approved by Law no. 426/2001, and amended by Law no. 27/2007, to be periodically reviewed in accordance to the technological and environmental requirements;

- Based on it, there were developed the National Waste Management Plan and the County Waste Management Plans. They are reviewed every five years or whenever it is necessary based on the annual monitoring report and development methodology. Their goal is to create the necessary frame to achieve the waste management objectives and conditions necessary for the financial support of the European Union;

- It was developed the National Strategy for Sustainable Development for the future years 2013-2020-2030;

- The National Plan for Research-Development and Innovation included some environmental, resources and energy objectives;

- The legislation is aligned with the European standards and the community acquis has been transposed into Romanian legislation;

- It was implemented the management and audit system for companies. This involved identifying risks and dangers that, through their activity, firms can provide to the environment; finding the means to eliminate them; establish

responsibilities; contracting for specific insurances, all in order to create a positive final image;

- Since 2005 measures to prevent waste producing from vehicles, out of use electrical and electronic equipments, including reuse, recycling or other forms of recovery of their components began to be implemented. Thus, Romania entered in the age of the car catalysts, the pollution tax, the “Jalopy” program etc.;

- Companies that introduce packaging on the market began to be engaged also in their recovery. Manufacturers are required to recycle 20% and to reappraise 30% of the quantity of packages resulting from their work. The percentage will increase to 50%, 66% respectively and if the companies will not observe it they will pay compensation amounts per kg of waste to the Romanian state. There are associations such as ECOROM Packaging, to which producers may become members by a fee, they guarantee that when the packaging they produce became waste it is collected and recycled by specialized firms;

- There has been made environmental balances Level I and II and risk assessments for more than 90% of the 450 waste storages, over 200 of them have already been closed. The number of organic deposits permanently rises, but it is still insufficient. Some wastes, such as the medical ones, require the destruction by burning in special, conform incinerators or dry sterilization at 150 Celsius degrees. Entrepreneurs interest on deposits and incinerators is growing, supported by the possibility of accessing European funds and the price of one euro/kg which hospitals pay for full-services;

- In schools of all grades there are more and more activities for enhancing and recovery the waste, but also for education, awareness of children and young people in the concept of selective collection etc. In the same purpose there are carried out various environmental campaigns. Some of the most recent and well known are: “SORT - Each waste in its place” or “Clean Romania”, in which initiators followed to attract not only the social environment but also the political one;

- The National Laboratory for Waste Management was founded, located in Bucharest, Galați, Bacău;

- In Romania there are cities with pilot projects in the area. For example, Piatra Neamț has, from December 2005, an ecological system of waste integrated management. Sorting is done from home and then at the sorting stations. The price of such a project is around 16 million euros paid from three sources: local government, central government and external partner. Now there are over 15 counties with such projects, which have been achieved by attracting European funds (ISPA);

- Romania obtained a transition period of two years after accession and which expired in late 2008 to implement the selective collection system through which to reach a minimum of 4 kg of waste recycled per capita. In all major towns of the country there were identified special storage spaces for paper, plastic and glass, recovery solutions, recycling, reusing, and monitoring of these processes;

- Increase interest in “green” business, which will become the most profitable in the future. There are already models of such business;

- Since 2007, the electrical or electronic buyer pays a green fee, a visible tax, which varies from one product to another, which is returned by the retailer to the manufacturer to give it to a collective management organizations responsible for transport and waste processing;

- For introducing on the market non-compliant packaging, with toxic content over the acceptable limits there are applied penalties;

- The composting organic waste and its use in organic farming, in the specialized agriculture (viticulture, forestry, fruit growing), in the maintenance of the green spaces, in the rehabilitation of roads and quarries or in the resorts where there are practiced winter sports.

Weaknesses

- The European Commission warned at that time that the environment is to Romania one of the “seven stones which hangs by its neck”;

- Romania's pet food imported annually worthes 80-100 million euros;

- There is no a recycler capable to obtain pet-food from waste. Recyclers have not yet invested in Romania because PET has to be collected on selective color and the necessary infrastructure is lacking. Now, PET is collected, compacted and converted into flakes, which then are exported to Southeast Asia. The only company recycling PET in Romania is in Buzău and it is a Taiwanese investment. It is forced to use also the raw material from outside because the waste collection in Romania is not enough. In the first years of operation, the company delivered pellets and flakes of PET plastic to producers in the country and abroad. Since 2004, however, Taiwanese investors have established a synthetic fiber factory, GreenFiber International, with a capital of nearly 7 million euros, fully using the product resulting from PET recycling;

- There is intention to introduce the “buy-back” system of buying plastic bottles, which would ensure internal production of materials for recyclers, but without a clear time horizon for the effective application;

- Neither paper is not collected selectively in our country, though there are identified the 12 large existing paper categories. From what is recycled it can be produced only toilet paper, tissues and newsprint;

- If the urban area have made major steps for the collection, selection and recycling, in the rural areas we can not talk about it. The waste generators from the 2686 villages don't have solutions and they must manage as they can this situation;

- Businesses in the area can be considered only pioneering actions, firms being ISO certified are just a few;

- Lack of investors is connected to the lack of infrastructure and difficulties in legislation application. The lack of a coherent system of information can be added;

- The required investment are up to 8 billion euros, double to the 2004 estimates;

- The Ministry of Environment and Forests does not fully master the waste problem and know all the data about how and how much is annually recycled;

- There can not really be said that there is a generalized system of waste management, because many firms meet only what the law requires and if it is not very clear or explicit, they do nothing;

- The architecture of garbage girdles in urban areas is almost impossible to rebuilt and refurbish, and the problem worsens because the waste is mixed throw;

- The insufficient knowledge of measures and possibilities, the population and businesses have to "get rid" of waste and ignorance of the concept of sustainable development.

Opportunities

- The obligations that Romania has to meet in the context of integration manage to take action in the battle against waste;

- Because of integration, environmental protection also becomes from a simple concern one of the most prolific areas for future business. For example, we are required to replace the existing landfills, which are sources of diseases and infections, with organic deposits, which are environmentally friendly and comply with the European legislation;

- Any business in the analyzed domain may help to create the integrated waste management system. Waste is at first sight a great inconvenient and undesirable result of human activity, but behind it, it is a great opportunity for those who know how improve it, create jobs, revenue and profit or resources;

- Waste management and marketing means their economic recovery and are, in the specialists opinion, more profitable than those of water, air and soil;
- Waste export can help to improve the commercial balance of our country, we mean even the composite waste, for example Tetra Packs packaging which have plastic, paper and aluminum in their composition;
- Non-recyclable waste could be burned as a fuel in cement factories or power plants;
- Foreign companies are increasingly interested in the recovery of waste in Romania. For example, aluminum beer cans is a very appreciated material, but we don't have yet such a collection system, which delayed potential investment;
- There can be accessed funds for waste management, biodiversity, ecological reconstruction, refurbishment, pollution prevention etc. Pre-accession funds totaled about 10 billion euros, and other three billion are available now from the Structural Funds;
- Cohesion Funds, available after 2007, are initially focusing on waste management and water, amounts in the early years being about 350-450 million euros, and will increase to 400-500 million annually;
- The access to the funds is possible both for public and private organizations, the interest of the last one becoming increasingly obvious;
- There are concerns to develop alternative solutions. Thus, to Lehliu Gară, a local countryside in Călărași county, the first refinery of biodiesel (biofuels from vegetable oils) was built. The location in the lowland area was chosen because it allows culture of rape and sunflower, the best material; such investments will continue, they are for the future. Following the Kyoto agreement to reduce emissions, the European Union urged member countries for at least 2% of total fuels by the end of 2005 and 20% by the end of 2020 be cleaned.

Threats

- Up until 2007 Romania was asked to close all non-compliant landfills. Instead there must be constructed 50 large organic stores and 15 smaller for isolated areas. Today this requirement is not covered and therefore the pressure on existing ones is very high and risks of large penalties against our country are also possible;
- Penalties will be paid according to the severity, time and importance of political and economic fault committed;

- The cost of a plastic recycling plant with a capacity of 7 kiloton is between 1.12 and 1.68 million euros. Due to the large amounts the project implementation should be closely monitored;

- In this field, everything depends on “selective collection at source”, ie on the will of every citizen to separate household garbage into different containers. In Romania this skill is just in forming or it doesn't exist yet, as does it no exist the reason to wash the glass or PET packaging;

- The present initiatives are only partially supported and promoted, which discourage others to consider an example of good practice. The lack of interest shown by the authorities risks to deep the gap between Romanian population and the responsible attitude over waste and the environment.

Environmental protection has become a worldwide priority. The failure in taking early necessary measures determined the occurrence of major environmental risks that threatens the entire planet, our country being a piece of this world puzzle. Greenhouse effect, the ozone layer alteration, water crisis, the desert expansion, flood, hurricanes, landslides, nuclear risks, everything imposes with great urgency to take action.

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Premises in Implementing the Common Consolidated Tax Base System

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Abstract. *The interdependence between countries and the importance of the economic links between them has reached an extend unprecedented in history. In the context of globalization, the mobility of production factors may get pressure on governments to reduce taxes in order to remain attractive. In this way, differences between European Union member states will be intensifying, increasing national suzerainty limit controversies in direct tax domain and, especially, in corporate income taxes domain. It is acute the necessity of the coordination in tax domain in European Union, but it must not be neglected the fact that social preferences of each state imposes on independents in creating of national tax policy.*

Keywords: fiscal optimizing strategies; common consolidated tax base; national fiscal policy.

JEL Codes: G32, H25.

REL Code: 8K.

1. Necessity of corporate tax base coordination

The world economy globalization, the progress of trade liberalization and capital flow extent have made easier the movement of goods, services, labour and capital beyond the natural borders. In consequence, the taxpayers have more possibilities to avoid the high taxation in a certain country by moving the taxation to countries with lower fiscal rates, so that the opportunities of economic development move from one country to another.

If there is a mobile capital or if the taxation rate is different from one country to another, the multinational companies may use a complete set of fiscal optimising strategies (the profit transfer to the areas with low taxes, or setting some financial departments in fiscal paradises to finance the investments by credit lines within the group). These types of tax non-payment strategies generate income losses in the countries with high fiscal level and disadvantage the small and medium size companies that enter in competition on the same market.

The analysis of corporate income tax level proves that the tax could determine a different impulse to investments in European Union member states.

Nominal taxation rates are not a complete indicator of burden tax, so we will analyse the adjusted statutory tax rate and the implicit tax rate.

The adjusted statutory tax includes supplementary corporate income tax rate, introduced fervently by public local authorities, besides statutory tax announced by authorities for taxation of some activity

As a rule, this supplementary taxes could be deduced from tax base. For example, as from 2007, the public local authorities include the maximum 1.5% rate of a municipal surcharge. France applies a statutory tax rate of 33.5%, but large companies (they have a turnover over 7,630,000 euro and a taxable profit over 2,289,000 euro) are subjected to an additional surcharge of 3.3%. All companies with a turnover over 400,000 euro pay an annual minimum lump-sum tax between 1300 euro and 110,000 euro (when the turnover is over 500,000,000 euro). In Hungary, from 2006, a “solidarity surtax” of 4% and a local business tax of 2% are levied on the most of the resident companies. In Italy, public local authorities include a supplementary corporate income tax rate of minimum 3.9% and maximum 4.9%, depending on company’s location.

The implicit tax rate measures the effective tax burden level of varied type of economical income or activities. An accurately measurement of corporate tax level must considered that the economical final effect of burden tax may be often transmitted from some contributors to others in interaction of supply and demand. An eloquent example is in following: companies increase the sale price like a reply at corporate income tax increasing. The impact determination

of these phenomena concerning tax level is difficult, but it realises, in part, through implicit tax rate.

The implicit tax rate is the percentage ratio between aggregate taxes and potential tax base. The evolution of this indicator is difficult for interpretation, especially in situation when it is not possible to make a clear distinction of varied tax influences.

In keeping with European Commission methodology, the implicit tax rate on corporate income is determined by following formula:

The implicit tax rate on corporate income = $\frac{\text{Taxes on corporate income}}{\text{net operating surplus of non-financial and financial corporations} + \text{interest received by non-financial and financial corporations} - \text{interest paid by non-financial and financial corporations} + \text{rents on land received by non-financial and financial corporations} - \text{rents on land paid by non-financial and financial corporations} + \text{dividends received by non-financial and financial corporations} - \text{dividends paid by non-financial and financial corporations} + \text{dividends received by general government} + \text{dividends received by rest of world} + \text{dividends received by households, self-employed and non-profit institutions} + \text{insurance property income attributed to policyholders received by non-financial and financial corporations}} \times 100$

In Figure 1 it is presented the situation of the adjusted statutory tax rate and the implicit tax rate on corporate income.

We observe that in Cyprus or Estonia, the statutory tax rate on corporate income is reduced, but the effective tax burden level on companies is raised and in Belgium or Greece we remark an opposite situation: the statutory tax rate on corporate income is raised, but the effective tax burden level on companies is reduced.

So, statutory tax rates could not offer complete information about the tax burden on corporations. This drawback could be eliminated about determining of effective tax rate. In specialty literature there are determined the effective marginal tax rate (EMTR) and the effective average tax rate (EATR). The methodology used for determining of the two rates has been created by Devereux M.P. in 1999 and by Griffith R., in 2003, respectively. The approach of these economists is consideration of a supplementary hypothetical investment localised either in home state or in other states.

Investment decisions are affected by both rates, but in a different mode. In this way the effective average tax rates orientate the decision on the selected emplacement for investment and the investment level is more influenced by the effective marginal tax rate.

The effective marginal tax rate offers the possibility of tax effect measurement on the investment impulse. It is the rate which is applied to the

marginal investment of the project, presenting the effect of taxes on an investment with a minimum post-tax rate of profit.

The measurement of the corporate income tax effect on the investment capital level is realised about cost of capital, defined like a benefit rate required by companies owners before of tax. The percentage difference between the cost of capital and real post-tax rate of return asked by company is the effective marginal tax rate.

The basic idea is that companies will invest until the point when the marginal result of the capital is equal with the cost of capital. For a solicited post-tax rate of return, a restrictive fiscal system generates a large cost of capital.

Using notes of authors (Devereux M.P. and Griffith R.), the calculation formula of the effective marginal tax rate is following:

$$EMTR = (\tilde{p} - r) / \tilde{p}$$

where:

$\tilde{p}$ is the cost of capital for a marginal investment;
 r is the discount rate.

or

$$EMTR = [c - (r + \delta)] / c = [(1 - A) / (1 - \tau A)] \times \tau$$

where:

c is the cost of capital;
 r is the discount rate;
 τ is the tax rate;
 δ is the economic depreciation;
 A is the allowance.

This expression shows that the relation between the statutory tax rate and the effective marginal tax rate depends as A . When the value of A is equal with 1, this shows the non-distortion of corporate income tax. As much the A is smaller, so much the corporate income tax will have a stronger effect on the investment. If the A is equal with 0, then the effective marginal tax rate will be equal with the statutory tax rate.

The effective average tax rate is the percentage difference between the net present value of a profitable investment project in the absence of the tax and the net present value of the same investment project in the presence of the tax. In both cases, the hypothetical investment has been realised in one period and it generates benefits in next period. Other hypothesis used in determining of the effective average tax rate is following: fiscal system remains unchanged on life duration of investment project.

The calculation formula of effective average tax rate is following:

$$EATR = \frac{R^* - R}{p / (1 + r)}$$

$$R^* = (p - r) / (1 + r)$$

$$R = \frac{(1 + \delta)(1 - \tau) + (r + \delta)(1 - A)}{1 + r}$$

where:

- R^* is the present value in the absence of the tax;
- R is the net present value in the presence of the tax;
- p is the pre-tax profit.

Analysing the evolution of the effective marginal tax rate and the effective average tax rate in 1982-2005, at an estimate inflation rate of 3.5%, Devereux and Sørensen attained the at following conclusions:

- the effective marginal tax rate level remained fairly stable over the 1990s (26% in 1982 and 25.5% in 1999) and it decreased in next period (21% in 2005);
- the effective average tax rate level decreased from 34.5% in 1982 to 29% in 2005.

For 2007, de Mooij R. and Devereux M.P. attained the conclusions that in all European Union member states, with exception of Belgium, the value of the effective marginal tax rate is positive, varying from 15% in Malta to 0.25% in Estonia (see Figure 2).

In this context, the introduction of a harmonization tax system on corporate income could contribute to the decrease of the distortions generated by differences between countries concerning the allocation of investments and tax bases, as well to realise the fiscal neutrality between national investments and european investments.

2. Description of the Common Consolidated Tax Base system

Common Consolidated Tax Base (CCBT) is a system based on which multinational companies would determine their consolidated volume of taxable incomes.

The actual actions dedicated to building such a system started on the occasion of the ECOFIN Council in September 2004, when the vast majority of the Member States accepted the utility of such progress towards creating a

common taxation base and decided to establish a working group containing of experts representing the Member States and presided by the European Commission, in order to examine in detail the possible solutions. According to the objectives proposed in 2004, the activity of this group (the Common Consolidated Corporate Tax Base Working Group - CCCTB WG) had to be substantiated into a law proposal at the end of 2008; however, this objective has not yet been achieved.

The regulation concerning the common consolidated corporate tax base will be applied to companies that pay corporate income taxes in the European Union Member States (that will be specified in an annex to the regulation that will be annually modified) organised into groups, but that carry out their business according to a sole group strategy. The details related to the definition of the group are not yet finalized due to the fact that the group is facing difficulties in establishing a shareholding threshold meant to prove (by ownership relations) the connections between the companies that are part of the group.

However, the existence of complex ownership relations between resident companies of the European Union and companies outside the Union requires that the status of the respective groups be clarified. There are a few more sensitive combinations, the treatment of which has to be differentiated:

- *several companies controlled by an entity outside the Community.* In this case it would be desirable that the system be applied to them because, otherwise, the application of the CCCTB could be avoided by the companies in the EU by the mere transfer of the entity that controls them outside the Community;
- *a parent company residing in the Community and having a subsidiary in a third country that controls, in its turn, a company residing in the Community.* In this case, the entities having their residence in the Community should be subjected to the CCCTB if the shareholding thresholds are sufficiently large as to be defined as legal property, but the consolidation of the tax base with the exclusion of the intermediary entity might create technical difficulties.

Such corporations may choose the CCCTB-based taxation system. This option will be accomplished by the notification of the competent authorities with at least three months before the beginning of the fiscal. It will be valid for five years and it will be automatically renewed for three-year periods in the absence of an official notification from the corporations, and the consolidation shall be made for the incomes and costs of all the members of a group of companies.

3. Difficulties in implementing the CCCTB system

The problems for which suitable solutions are not yet found are related to the accounting rules that should be used for the definition of the consolidated base. The debates of the working group frequently involved the idea of using the International Financial Reporting Standards (IFRS). In addition to the fact that they are recognised at the international level, they have the advantage of allowing taxpayers to adjust to them quite easily – starting with 1 January 2005 – at the level of the Community, a Regulation is applied that requests the companies listed in the regulated capital market to draw up their consolidated balance sheets in compliance with the IFRS requests. A number of studies proved the fact that these standards may offer solutions that can be taken over into the rules of drawing up the consolidated base, and can also lead to a decrease in the rates of taxation, which would increase the attractiveness of the whole European Union as location for investments.

In the opinion of the officials from Brussels, it may be difficult to use these standards because in many countries, in the case of the local companies, their usage is not allowed and not all the standards are compatible with the taxation requirements. For this reason, the decision was made to start from the accounting rules generally accepted in all the member countries, which will undergo certain changes in order to meet the rules established for the CCCTB. Other debates held at the level of the working group, in relation to the implementation of the CCCTB, were related to:

- *Fixed assets and depreciation.* The assets that meet the requirements may be depreciated either individually, which requires an estimation of the service life of each and every asset when it is purchased (in compliance with the common norms applicable in the EU), and an individual depreciation during their service life, either in one or in several categories with a common established service life. The Commission's opinion is that the development of the grouping method within the CCCTB implies considerable advantages;

- *Deductions for provisions.* Provisions may generally be fiscally non-deductible, completed by a list of fiscally deductible exceptions, or may generally be fiscally deductible, completed by a list of fiscally non-deductible exceptions. In the Commission's opinion, the fiscally deductible provisions must be defined and completed by a list of fiscally non-deductible exceptions;

- *General methodology.* For the calculation of the taxation bases for a company, one can start from the comparison between the opening balance sheet with the ending balance sheets or from the profit and loss account of the company. In the first case it is necessary to prepare a model of "fiscal balance" according to commonly defined norms that should also include the profit and

loss account. In the second case, only the profit and loss account commonly agreed in the CCCTB legislation is necessary; the information related to the balance can be checked by comparison with the financial accounts. The Commission considers that a fiscal balance is not necessary and that such a balance represents an additional administrative burden;

- *Local taxes.* In certain Member States there are local taxes on business. They may be deductible from the consolidated base and thus included into the distribution mechanism or maintained at the national level and deducted only from the respective part of the consolidated base that due to the respective Member State. In the Commission's opinion, in general, it is preferable to establish a set of norms as vast as possible, in order to avoid national "derogations" or additional taxes as much as possible. However, as additional analysis of all their consequences is necessary, because the "distribution" of the deductions for the local taxes at the EU level but the "non-distribution" of the national taxes at the level of the common base might generate inconsistency;

- *External incomes.* The external/foreign incomes of a company can be totally excluded from the consolidated tax base or can be incorporated into it. In the last situation it is necessary to have a method of including them into the consolidation and distribution mechanism. This issue has been raised due to the fact that the various methods of avoiding double taxation currently used by the Member States according to the national legislation, as well as the bilateral agreements with third countries should be taken into account. The Commission believes that it is preferable to define a method that should incorporate external incomes into the consolidated tax base and that should be completed, where necessary, by some form of exemption in order to avoid double taxation;

- *Intra-group transactions.* Avoiding problems related to transfer prices represents an important advantage of consolidation. However, there are several methods of eliminating intra-group transactions by consolidating the base. Transfer prices can be ignored, recognised at the level of costs or recognised at the price established under full competition conditions. Each method presents advantages and disadvantages, that is why the Commission must decide which is preferable or whether each group may be allowed to choose.

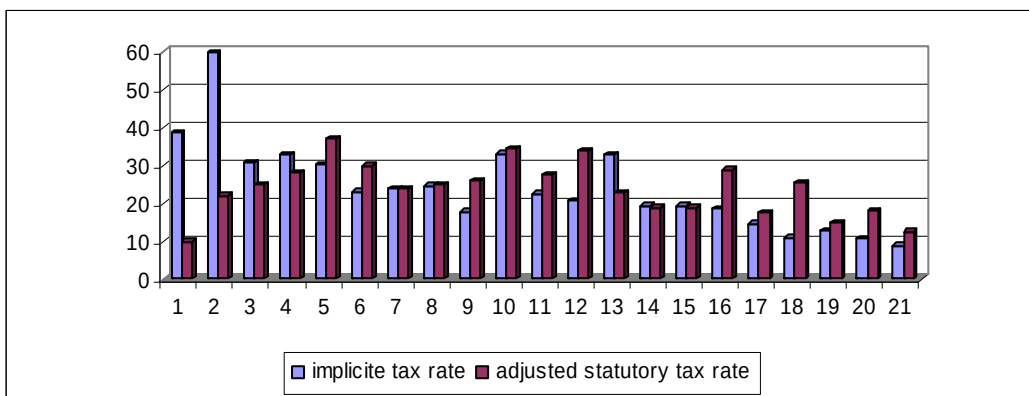
But the problem that generated most of the debates is represented by the distribution formula, among the entitled Member States, of the consolidated revenue determined through the decided tax base. It is necessary that this formula be transparent and simple, and not to involve compliance costs and excessive administration, to decrease the possibility of corporations to transfer allocation factors from one site to another, and not to generate distortions at the level of the business environment in the European Union.

4. Conclusions

Recent trends towards a common European tax policy for the general corporate taxation aim at preventing the negative effects of tax competition, especially those of the national tax base “migration”, by moving corporate main offices in countries with more advantageous systems of taxation.

The idea of harmonising corporate taxation constitutes one of the most important debate topics on the agenda of the European Commission for the moment, and also within specialists’ theoretical approaches. The vast range of such approaches is particularly relevant for the complexity of the problems that hindering the formula, even if it is only at a theoretical level separated from the policy feasibility issues, and from widely shared solutions.

The European Committee’s proposal to adopt measures to charge the capital companies’ incomes according to a consolidated fiscal base for activities performed within the European Union has many supporters, attracted by the possibilities provided by a more concise taxation system and a better business planning that may result when applying such formula, both and many opposes, who affirm that the corporate income tax must be a decision of national government.

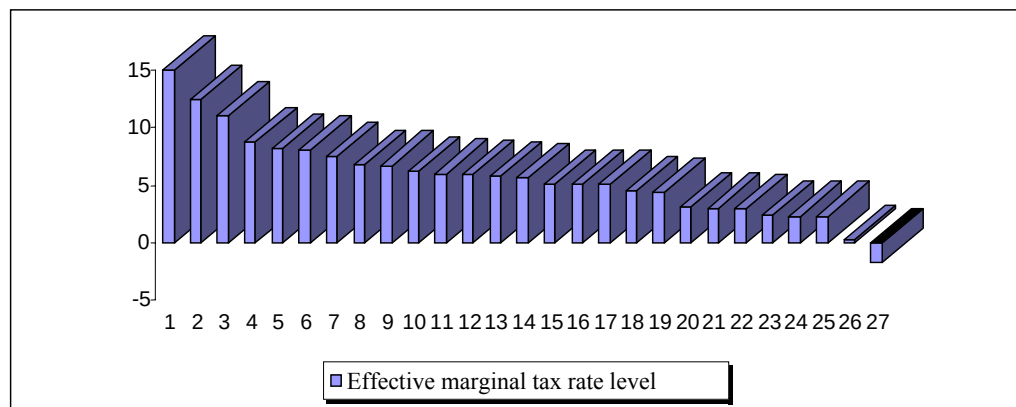


Legend:

1 – Cyprus, 2 – Estonia, 3 – Denmark, 4 – Sweden, 5 – Italy, 6 – United Kingdom, 7 – Czech Republic, 8 – Austria, 9 – Finland, 10 – France, 11 – Portugal, 12 – Belgium, 13 – Slovenia, 14 – Poland, 15 – Slovakia, 16 – Greece, 17 – Hungary, 18 – Netherlands, 19 – Latvia, 20 – Lithuania, 21 – Ireland.

Note: For Bulgaria, Germany, Luxembourg, Malta and Romania, there are no informations; the represented data form the figure are referring to the situation from 2007, excepting Greece, Hungary, Poland and Portugal for which information is from 2006.

Figure 1. Comparative presentation of the adjusted statutory tax rate and the implicit tax rate on corporate income



Legend:

1 – Malta, 2 – Luxembourg, 3 – Spain, 4 – Czech Republic, 5 – Germany, 6 – France, 7 – Finland, 8 – Italy, 9 – Poland, 10 – Netherlands, 11 – Slovenia, 12 – Greece, 13 – Austria, 14 – Sweden, 15 – Denmark, 16 – Hungary, 17 – Slovakia, 18 – Portugal, 19 – United Kingdom, 20 – Ireland, 21 – Cyprus, 22 – Lithuania, 23 – Bulgaria, 24 – Latvia, 25 – Romania, 26 – Estonia, 27 – Belgium.

Figure 2. The effective marginal tax rate level in EU member states in 2007

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